Housing in the East Fens

A Report prepared as a Component of EFforT-East Fens for Tomorrow-a jointly sponsored community planning initiative of the Fenway Project Area Committee and The Boston-Fenway Program, Inc.

Winter 1981

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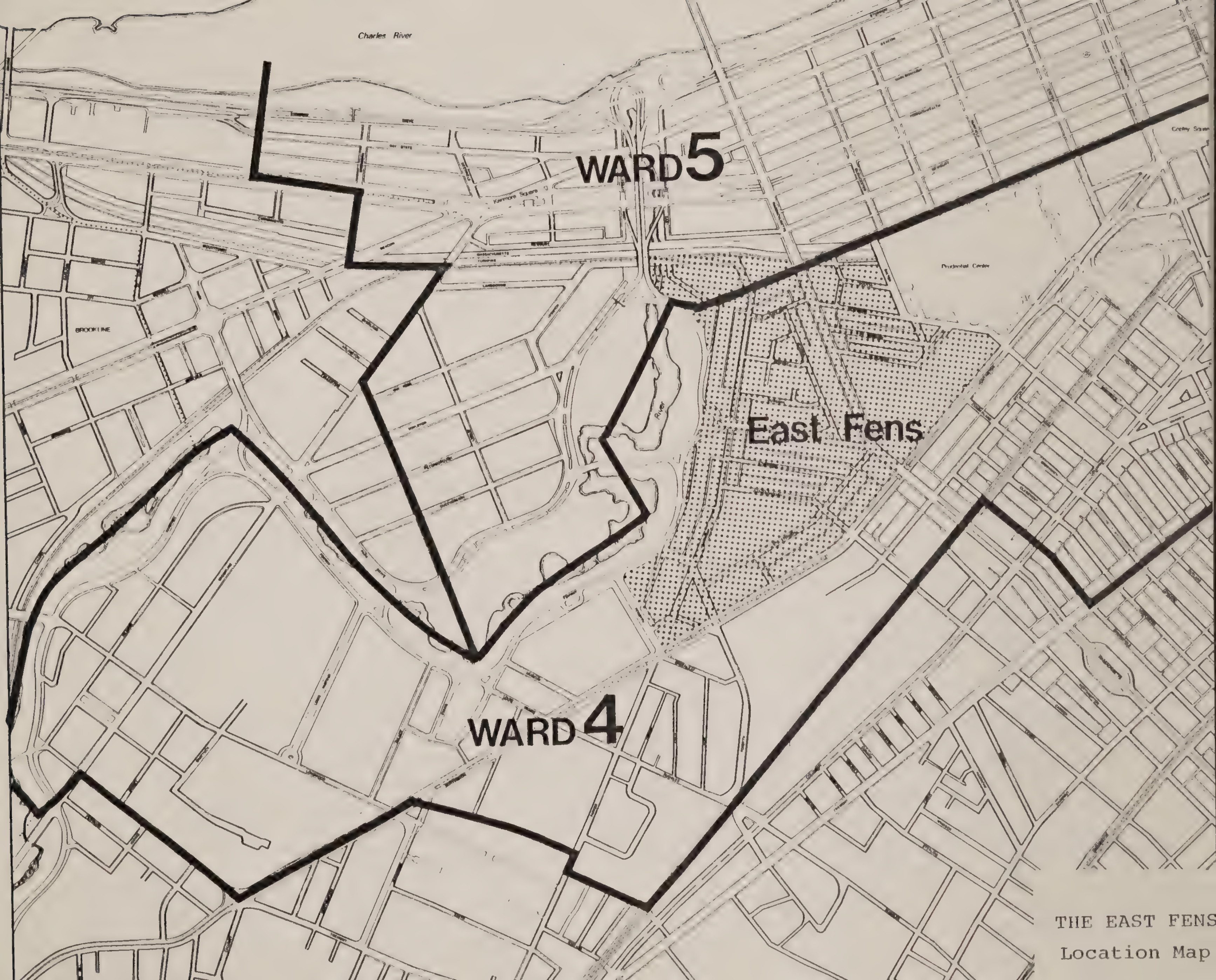
INTRODUCTION



THE EAST FENS
Location Map

EFforT

3 EFforT--East Fens for Tomorrow--is a cooperative attempt by the Fenway Project Area Committee (FenPAC) and The Boston-Fenway Program, Inc., to lay a consistent foundation to which neighborhood revitalization activities of both private and public interests may relate.

FenPAC is a locally elected planning body which advises the Boston Redevelopment Authority on matters pertaining to the Fenway Urban Renewal Area. The Boston-Fenway Program, Inc., is a not-for-profit corporation whose eleven members are educational, cultural, religious and health-based institutions seeking solutions to the urban problems of the Back Bay Fens.

The purpose of EFforT is descriptive rather than prescriptive. The intention is to provide in a consistent and organized fashion all the information and data resources necessary for both the encouragement and evaluation of revitalization proposals. Additionally, through EFforT it may be possible to place in perspective many of the community's present and historical problems and opportunities, goals and issues.

A third and continuing reason lying behind EFforT is the prospect

of developing a consensus among East Fens residents, visitors, owners, tenants, employees, businesses, institutions, and community groups over what the East Fens is now and how it should or might be in the future.

The major components of EFforT in concrete terms are three in number:

DATA BASE. The development of a series of maps, charts, reports, and studies centering on population, land use, and housing, designed to define as fully as possible what the East Fens is in terms of people and property. Finished versions of the Data Base have been completed and are now available for use at the offices of either FenPAC or The Boston-Fenway Program, Inc.

THE EAST FENS PROFILE. The Profile is a large single sheet document that graphically and textually summarizes the Data Base and concisely describes the history of the East Fens; the significance of the community's location in the Boston region; community goals and issues; recent and current improvements, projects and resources; planned or proposed improvements; opportunities; and areas for action. The Profile was released in November, 1979, and has been widely distributed in the community and to interested or involved persons and groups throughout Boston.

THE HOUSING TEAM. From the outset of EFforT it was clear that housing and associated matters are uppermost in the minds of residents and community groups in the East Fens. There is an increasing concern over rising rent levels, the cost of energy, dwindling financial returns on housing investment, high credit costs, property taxes, changes in housing quality and quantity, sharpening demand and competition for a decreasing supply of housing, and student housing pressures on supply. Because of the central nature of housing as a local concern and issue it was decided that a focused look at the housing situation in the East Fens should be the major component of EFforT. To make it so the procedure chosen as most workable was the establishment of

a Housing Team. This report combines the observations and conclusions of that Team with housing data, program information, financial analyses, rehabilitation options, and so on, developed before, during and since the Team's six meetings in the summer of 1979.

Housing Team

6 The Housing Team* was conceived as a loose grouping of persons with expertise in one or another aspect of housing who would meet together, discuss various housing-related issues, react to facts and findings presented by the sponsoring organizations, give guidance and make observations and comments. In a real sense it served as a useful 'sounding board' for FenPAC, The Boston-Fenway Program, Inc. and the local community.

The Team met on six separate occasions during the summer of 1979:

Meeting 1: Introduction and review of EFforT Data Base.
East Fens Housing Profile: Types, condition, numbers, rents, trends, pressures, etc.
Rehabilitation Costs and Approaches.
Marketing Realities.

Meeting 2: Private Financing Programs and Options (as they might apply to various building types and conditions and levels of rehabilitation in the East Fens).

**Those who participated in the Housing Team meetings are listed in the Appendix.*

Meeting 3: Public Financing Programs and Options (as they might apply to various building types and conditions and levels of rehabilitation in the East Fens).

Meeting 4: Cooperatives and Condominiums: The Applicability of alternative forms of ownership and tenancy in the East Fens.

Meeting 5: Community Development Corporations: Their role in housing rehabilitation and neighborhood revitalization.
Report on an energy analysis of selected East Fens buildings.

7 Meeting 6: Property Taxation: The present and the likely future situation; effect on housing rehabilitation; getting tax title properties back on the tax rolls.
Rent Control: The present situation; its effect on rental housing and rehabilitation; the prospects for the future.
Student Housing Pressure: Student tenancy of non-institutionally owned housing; its scope; the problems it creates; possible solutions.

This report does not attempt to follow fully the sequence and content of these six meetings. Some issues and areas of concern aired in the meetings are not thoroughly covered here while, on the other hand, much presented here was not specifically discussed in the meetings.

A summary of some the points made and questions asked may be helpful:

> *We're all swimming in a sea of mistrust in that the direction that the East Fens is likely to take in the future is not yet clear and the various local factions neither understand nor trust one another.*

There's an uncertainty about the future: The whole question of City tax policy is unclear. Will institutions expand or contract? Is the arson problem a thing of the past?

The Fenway has a poor media image. It's perceived as an unsafe and declining area.

There's no strong and unified voice in the Fenway that can effectively present a reasonable and consistent case to public policy makers and government agencies.

Rent control is the big unknown. Will it be retained or will it be phased out? How can landlords carry on if there's no timely way to adjust revenues to meet ever increasing costs? It's really the government that should be in the rent subsidy business not the landlord.

There are no real estate brokers operating in the East Fens. A key to revitalization is the active attention of a broker if investor interest is to be encouraged.

The smaller buildings in the East Fens--those with no more than eight units--are the ones most in demand for purchase and rehabilitation. Typically the intention of buyers is to occupy them. This type of building will be the first to receive attention. The most difficult ones, and the ones that will be attended to last by the private sector, are the large apartment houses particularly those now occupied and situated in the center of the neighborhood as opposed to those on or near the Back Bay Fens.

Although minor rehabilitation is at times all that is needed there are problems: Banks generally are not interested in writing loans for minor work (and minor sums) and the financial situation in terms of return on investment is not normally attractive.

What will happen as the supply of rental housing diminishes because of condominium conversion and the slowdown of new rental construction? Won't the demand for rental units then climb? If so won't investment opportunities in rental housing also expand?

It seems unnecessary to talk always about gut rehabilitation in the East Fens. If a building is maintained reasonably well over the years, if the vacancies are minimal, if periodic refurbishing is undertaken, most any building can be run at a profit without the necessity of large rent increases. It's only when a building is in bad shape or the owner wants to market his property upwards to an essentially different economic clientele, that it becomes necessary to undertake total rehabilitation and consequently raise rents dramatically. Often total rehabilitation isn't at all necessary. It can be made necessary, however, strictly on marketing grounds.

Nearly all of the property transfers in the East Fens in recent years have involved "purchase money mortgages", i.e. the seller lending the buyer purchase money, rather than bank financing.

We shouldn't be too hopeful about banks lending money in the area: the smaller thrift institutions in particular have no money to lend. The outflow of finds through withdrawal is now outpacing the infusion of funds through deposits.

A major problem with HUD's 312 rehabilitation loans (3% interest) is the frustration engendered by the on again-off again nature of the program locally. The waiting lists are long, people are told that loans will be available soon and then they are not, work is held up pending reviews or decisions, etc.

HUD's local Area Office would be far more receptive to projects that were directed towards families rather than to the elderly. There seems to have been too much emphasis on elderly housing in recent years. On the other hand family projects have not had an impressive financial track record in the past.

Many groups in the East Fens are interested in the potential of cooperative housing, a form of ownership not widely seen in New England but successful in other parts of the country. The most important thing to remember about a coop, however, is that it is a corporation and like any corporation it must be run in a businesslike manner. If not it will go under.

Presently, selling prices of condominiums are about $50 per square foot in such areas as the South End, Bay Village and the St. Botolph area, and closer to $80 to $100 per square foot in the Back Bay, Beacon Hill and the Waterfront.

The City has a good financial reason to be enthusiastic about condominium conversions: If a building goes from rental to condominium the tax revenue will increase at least 10% to 25%.

Traditionally people would budget 25% of their income for housing. This percentage has risen recently and will probably continue to rise, perhaps to as high as 40%.

Moderate income condominiums are possible but only if the necessary rehabilitation is moderate in scope and the developer is a Community Development Corporation or similar entity able or willing to forego profits. A private developer will attempt to maximize his profit and therefore will set his prices according to what the market will bear. And in order to market his units at higher prices he will tend to do more than merely moderate rehabilitation.

A successful and effective Community Development Corporation requires "an anchor of stability." The East Fens may not qualify on this score because of the large transient population and the low percentage of owner-occupants.

Property assessments have historically been high in the East Fens in comparison to other Boston neighborhoods. On the other hand, abatements have also been more common than elsewhere.

An Historical Overview

The Fenway area began as a residential and institutional neighborhood in the late 1880s and 1890s. Fenway development followed closely behind the landfill operations of the 1850s; so the majority of development occurred on formerly unused sites. The Fenway housing stock developed as a compromise between the individually developed mansions of the Back Bay and the speculatively converted roominghouses of the one-time promising South End.

Among the early institutions moving to the Fenway were the Boston Medical Library, the Massachusetts Historical Society, the Massachusetts Horticultural Society, the Boston Symphony Orchestra, the First Church of Christ, Scientist, the Museum of Fine Arts and a host of schools and hospitals.

The residential area of the Fenway was largely a result of the activities of individual speculators who bought land and built houses to be sold or rented. Established architects designed some of the buildings, but more often the roles of developer, designer and builder were combined in one person. Large apartment buildings dominated the major streets while small rowhouses were more the norm on those interior streets that were developed first. From the beginning each street took on a unified appearance because, as a rule, housing on an entire block front was

built by one person at one time rather than piecemeal by several people. Various architectural styles appear but the extent of ornamentation was limited by what materials were readily available. Thus, although the buildings were not luxurious as in the Back Bay, they created a more unified appearance than the hodgepodge of rowhouses, warehouses, and roominghouses found in parts of the South End.

Continuing the compromise on the supply side was the development of living units that could fully serve the needs of small families. Small apartments, complete with kitchen and living areas, were built rather than large single-family homes. The majority of early Fenway residents were clerks or lower rank white collar workers from nearby institutions.

The match between supply and demand was consistent throughout the golden years of the Fenway, 1920 to 1940. In this era the Fenway became an active and respected entertainment district which one local entrepreneur saw as rivalling New York's 42nd Street.

After World War II and through the 1950s the Fenway witnessed a decline similar to other East Coast in-town neighborhoods. As incomes rose and the suburbs became more accessible, the Fenway resident/employee was easily drawn away.

Three historical developments—urban renewal, institutional growth and arson—have affected current market conditions.

Spurred by the promise of the Prudential Center and Government Center urban renewal projects, the city government and Fenway institutions developed a large-scale urban renewal plan for the redevelopment of the major commercial and institutional centers. The plan that resulted was ambitious; it called for a series of towers and long blocks that would surround the Mother Church. Despite the fact that the plans called for significant proportions of publicly assisted housing, many Fenway residents feared that the new projects would displace long-term residents and significantly alter the complexion of the neighborhood. Community resis-

tance arose and a court injunction followed. The eventual upshot of this was the creation in 1973 of the Fenway Project Area Committee (FenPAC) to give the community a voice in renewal activities in the Fenway. FenPAC played a major role in the selection of the remaining developers and more recently has directed its activities at comprehensive community revitalization.

Also affecting current condition was the unanticipated growth in the 1960s of the area's institutions. The First Church of Christ, Scientist, established its World Center in the Fenway. The Berklee College of Music relocated in the Fenway and established a permanent campus at Massachusetts Avenue and Boylston Street. Northeastern University enrollment and land ownership increased dramatically. It became apparent that the Fenway land and housing market was dominated by institutional buyers and users. Over 50% of the land area in the East Fens is owned by institutions, and 61% of the 1978 adult population listed 'student' as its primary occupation.

The growth in student numbers outstripped the growth in dormitory capacity and as a result the educational institutions of the Fenway were able to house less than 25% of their students. (In 1980, Berklee housed 30%; Northeastern, 23%; and the New England Conservatory, 21%.) Thus, thousands of students entered the local rental market. As a consequence, rents were bid up and, for a while, the rental market showed a high income potential. In addition, the institutions themselves were putting further demand on local real estate by outright purchase of apartments for dormitory and office use. With institutional demand for property added to government improvements and acquisitions for urban renewal, an overly active property market became unavoidable.

However, this market had a few imbalances: Although many anticipated eventual institutional or governmental acquisition, the majority of parcels remained in private ownership. In time the speculative sellers outnumbered the buyers. The paper value of property rose due to earlier speculative sales but this increase in value was not followed by an increase in quality. Because of rent control and the low incomes of the majority of residents,

properties bought for speculation did not produce the income necessary to cover the new, higher cost of financing. The fixed costs of maintenance and heating doubled between 1964 and 1974, and even long-term owners began to feel strained. As the provision of housing became less profitable than simple speculation, buying property solely for its appreciation prospects became the predominant modus operandi.

An adjustment of some sort became inevitable and it came during the early 1970s. The oil crisis of 1974, the recession of 1975, the decrease in college-age population, and finally the inability of government regulation to adjust flexibly were all important factors explaining the eventual downturn in the East Fens housing market. Owners of recently bought buildings were left with units which because of high financing costs and high operating and maintenance costs could not, in unrehabilitated condition, be successfully marketed at the necessary rents. The dream of a quick turnover became the nightmare of a situation with no options.

Tax delinquency, abandonment and arson hit the Fenway as a consequence. In 1977, 44% of East Fens buildings were in tax arrears. Over 20 buildings had fires of suspicious origin and 500 people were displaced.

Prior to the actual fires a group of community residents organized in an effort to deal with undermaintenance and tenant complaints. Bad publicity and intensive code enforcement activities pushed the speculators even further into a bind. Operating costs and taxes could be left unpaid but legal action and public scrutiny would interfere with the landlords' property management techniques and force them to spend money in order to lose money.

When the fires began, the local residents started researching some of the insurance settlements. The Symphony Tenants Organizing Project (STOP), formed in 1976, developed files on ownership and deed transfers of buildings which had burned under suspicious circumstances. Many were covered by "pool" insurance, a policy offered by a consortium of insurance companies when no one company would normally assume the risk. Not surprisingly, some of these buildings were overinsured. In many cases, the taxes were in

arrears and all maintenance and services had ceased in an effort to drive out tenants. The ownership arrangements were extremely complex with trusts and dummy corporations holding title to many of the suspected buildings. Based on STOP's findings and other investigations, the Attorney General was able to uncover a metropolitan-wide arson ring and to win an impressive number of criminal convictions.

The latest stage in the Fenway's history is a brighter one. Left with a large vacant and undermaintained stock, community groups and institutions formed public development organizations. This approach to development is detailed elsewhere in this report. These organizations have successfully begun picking up the pieces of a neighborhood. The East Fens now has fewer absentee landlords, fewer vacant buildings and more owner-occupants. Abandoned and empty buildings are now being brought back to life and the community is beginning to take on a more positive view of itself.

Housing Overview

The Boston Housing Market

A one-sentence statement describing current Boston housing dynamics could be: too much demand confronting too limited a supply. Goetze and OKM have come to this conclusion by asses-

Note: This section attempts to describe the current Fenway housing market. A few well-documented reports on the Boston housing market and its sub-markets have recently been issued. For a detailed understanding of the methodologies, analyses and conclusions used to arrive at some of the concepts presented here, please refer to the reports:

- Residential Property Value and Rent Impact Analysis for Copley Place Development. The Economic Research Associates, October 1979.
- Revitalization without Displacement, a Discussion of and Challenge to the New Boston. OKM Associates, Inc., January 1981.
- The Outlook for Economic Development in the East Fens. Harvard Graduate School of Design, May 1980.
- Multi-Family, Investor-Owned Housing, a Reconnaissance. Rolf Goetze, Boston Redevelopment Authority, May 1976.
- Subsequent BRA/Rolf Goetze unpublished studies on Boston housing market issues.

sing general national economic conditions, particular City of Boston policies and the Boston supply/demand situation.

The well-publicized increase in energy and financing costs as well as the decrease in the growth of suburban housing have encouraged a back-to-the-city movement. Middle class Americans have become increasingly aware of the financial advantages of homeownership. Since housing values are depressed in inner city areas, the middle class residents now find housing more easily affordable there than in suburban areas. Financing is costly but a significant portion of that cost qualifies as a deduction from taxable income.

The baby-boom generation has now reached the household formation years causing the demand for housing to soar. The surge in population that over the past two decades crowded educational institutions has now passed on to affect the housing market. New households are pursuing lifestyles different from their parents' and accessibility to work and cultural opportunities is valued over the amenities of the suburban environment.

As well as being affected by these national trends, Boston has been witnessing some trends of its own. Boston has successfully marketed a new public image of the 'livable city'. The public image of the 'New Boston' makes living in Boston a most attractive and viable option, particularly for those who work downtown.

Also, Boston went through a prolonged period of economic stagnation from 1930 to the early 1970s. During this period, housing prices, turnover and rents remained lower than the regional or national average. The recent resurgence, then, became quite a shock to homeowners and tenants alike.

The student population has greatly expanded during the last decade. The introduction of nearly a quarter of a million students into the metropolitan area has significantly heightened the competition for available housing.

Finally, until now Boston has lagged behind other areas in housing production. Building permit records indicate little construction since 1972 except for Federally subsidized developments. Most of the housing stock is in desperate need of new investment due both to age and neglect.

Rolf Goetze's analysis of current conditions highlights a few important statistics:

- Rent levels and property values are up significantly over their depressed 1970-1975 levels.
- The vacancy rate has become extremely tight, dropping from 6.4 percent in 1970.
- There is renewed developer interest in constructing conventional housing in some sections of the city.

Considering past conditions together with current prospects points up a major dilemma of the Boston housing market in the 1980s. The former situation of low prices and lack of production has created a potentially deepening housing crisis. As the OKM report states:

> *Now as the market tightens, this wasteful and deceptive low cost housing solution cannot continue. The needed improvements to the existing housing stock will raise the cost of housing, often substantially. Material and labor costs are high and the rising costs of financing the improvements are nearly prohibitive. In addition, higher taxes often follow the improvements. In hindsight, deferring maintenance was a costly mistake and provided cheap housing only because the costs of abandonment and replacement were not factored in. The housing stock that remains in urban areas is going to cost significantly more if it is to be made decent and suitable again.*

Housing Data Summary

Although representing only about 2% of the city-wide total, the housing stock of the East Fens is surprisingly diverse in size, type, age, condition and cost. The range is wide: small owner-occupied rowhouses to large rental apartment buildings; single rooms to two- and three-bedroom units; older derelict buildings with unsure prospects to newly built or renovated structures; low rents to luxury rents.

Of the close to 400 separate residential buildings in the East Fens, about one-third have four or fewer housing units. However, these smaller buildings account for only 4% of the total units while 46% of all units are in larger buildings (fully 92% if

dormitory and lodging house units--normally non-housekeeping rooms--are ignored).

Those living in the East Fens do so almost exclusively as tenants and not owners. Leaving aside dormitories and abandoned buildings, nearly 99% of the remaining 5,142 units are rental. This is in marked contrast to most other Boston neighborhoods. City-wide, owner-occupied housing units account for 27% of all units: owner-occupancy in Roslindale is 88%, in Beacon Hill-Back Bay 9%, the South End 11%.

A careful inspection and rating of the exterior condition of all but a few East Fens structures indicate that 44% are in either good or excellent condition with the remainder judged as fair or poor. Many of those classified as excellent are either new or have been recently rehabilitated. About half of those rated as poor are boarded or empty and most of these are uninhabitable as they now stand.

Presently 6% of all the residential buildings in the East Fens are boarded or empty, 422 units of housing once occupied and now idle and unproductive. These problem buildings remain as very visible challenges to the community and the city at large.

[Note: *The above section is excerpted from* *__The East Fens Profile__* *which appeared in the summer of 1979 as part of the EFforT process. Since that time significant progress has been made in bringing back to use the East Fens' large stock of empty buildings. The Westland Avenue Associates and Symphony Area Renaissance, Inc., projects, described elsewhere in this report, are having the most significant impact at the moment (the former is now in construction, the latter is completed). The two together will result in about half the abandoned buildings being reclaimed.*

Suppliers of Housing in the Fenway

One method of analysing the current Fenway housing market is to categorize new buyers according to their investment objectives and the type of housing stock being purchased. Using this approach it is possible to identify five major types of buyers based on 58 property sales since June of 1978.

The largest number of new owners seems to be the pioneering small investor--usually an individual or family searching for a house that includes at least one income unit. The rowhouses on Edgerly Road, St. Stephen Street, Symphony Road and Hemenway Street are representative of this type of stock. Sixteen sales between June, 1978, and January, 1981, fall into this category.

A second class of new owner is the publicly assisted developer. Although some Section 236 and FHA-assisted development have been undertaken within the urban renewal area, recent projects are much more oriented to neighborhood needs. Several of this type are discussed in the Public Finance section below. The Westland Avenue Associates and the Symphony Area Renaissance, Inc., developments as well as projects by the Fenway Community Land Trust, First Fenway Cooperative, Inc., and the Boston Mutual Housing Association, all involve creative attempts by local community-based development corporations. They include a mixed-income rental project, a tenant-converted cooperative and a moderate rent CDC-owned project. Those in the planning stage include a limited equity cooperative conversion and a proposal by the Fenway Community Land Trust for rehabilitating a vacant building. Twelve buildings have been turned over to owners of this type since June of 1978.

The third class of new owner in the Fenway is the investor whose first interest is speculative gain. Short term appreciation and not long term operating income is the objective. Nine buildings bought since June, 1978, were resold before January, 1981, suggesting the involvement of this type of investor.

The fourth class of new owner is the traditional full-time apartment owner/manager. Such investors have recently reappeared as market conditions have improved. Their approach is to purchase buildings in average condition and begin a program of phased modernization and repair. In some cases they use public rehabilitation programs but frequently they are Jacks-of-all-trades who will repair and upgrade gradually as income increases. These owners typically invest in mid-size to large buildings or groups of adjoining small buildings. Six property turnovers since June, 1978, fall into this category.

The final type of new owner is the condominium developer. Although

condominiums now represent only a small share of the total housing stock, they represent a new phenomenon in the Fenway housing market. The local condominium market, unlike that in other sections of the city, is not quite strong enough to warrant totally rehabilitated units. All of the present condominiums involved the conversion of existing buildings with only general cosmetic and code work undertaken to improve basic appearance and safety. To date, four buildings in the East Fens have been converted and registered as condominiums, while several more are in the process of being developed.

Quality of Housing Stock

In order to understand the housing market dynamics of the East Fens, the quality of the housing stock must be assessed. Urban planners, statisticians and economists tend not to agree on what observable characteristics are proper indicators of housing quality. But most handbooks or guides to housing surveys do agree about individual factors correlating with housing quality. Exterior factors include condition of foundations, facades, windows and doors. Other factors include type of management and security. Interior factors include the age of bathrooms, kitchens and utility systems, and condition of walls and ceilings. Taken together, these factors can be observed, judged on a comparables basis and otherwise analysed to present a summary score indicating the relevant condition of all buildings.

An exterior condition survey of each residential building in the East Fens was conducted between September, 1978, and May, 1979. The items examined were general appearance and the condition of foundations, facades, windows, doors, stairs, fire escpes and yards. A judgement of quality or security and maintenance also entered into the evaluation. This analysis indicated that the East Fens has a housing stock that generally is in adequate, livable condition. Nearly half the stock is in good or excellent condition, and the largest single category of buildings are those judged to be in fair condition.

Supplementing the exterior survey is an interior inspection of 28 buildings carried out in connection with the East Fens' interest reduction program (see the Public Finance section). The results,

shown in Table N of the Appendices, indicate that 35% of the buildings surveyed need total rehabilitation, 57% need minor rehabilitation and 7% need cosmetic repair.

Tenants, landlords or investors interested in rehabilitating East Fens buildings should find the Rehabilitation Schemes section of this report helpful. The schemes provide an estimate of cost based on level of repair and alternative financing schemes for different building types. Policymakers and planners, however, are more interested in aggregates and not individual buildings. By extrapolating rehabilitation need from the exterior survey coupled with the percentages arrived at in the interior survey, it is possible to arrive at an overall picture of rehabilitation needs in the East Fens. If it is assumed that excellent condition buildings need no rehabilitation and that poor condition buildings require total rehabilitation, then it is only necessary to extrapolate what proportion of buildings in fair condition and in good condition require what level of rehabilitation (minor or total). Cosmetic needs could not be estimated since the sample size was too small in the interior survey.

The footnotes to Tables N5 and N6 specifically describe the method used to develop a breakdown of the amount of rehabilitation needed for all East Fens buildings. Using this method it was estimated that approximately 91 buildings (25% of the total) need total rehabilitation and approximately 75 buildings (21% of the total) need minor rehabilitation. The cost of repair varies according to the type of building (see the Rehabilitation Schemes). The remaining buildings, 193 or 54%, need cosmetic work or no rehabilitation at all.

A significant amount of labor and capital will be needed over the next decade to rehabilitate and repair what amounts to nearly one-half of the East Fens housing stock. The cost of such improvements will significantly alter the pricing structure of local housing since rents for most buildings currently reflect low financing cost, whereas future rents will reflect the high cost of present-day financing. As the Rehabilitation Schemes section suggests, financing costs may account for up to 60% of the total cost of housing.

It is important to make improvements soon to that portion of the housing stock now in fair condition. If the repairs are not made within the next decade, much of the East Fens housing stock will slip from needing minor or cosmetic rehabilitation to requiring total rehabilitation. Deferred improvements and maintenance will delay the change in pricing structure, but eventually these properties will have deficiencies in utility systems, kitchens and bathrooms and internal cosmetic appearance serious enough to warrant total rehabilitation. The cost of total rehabilitation and the disruption it necessarily causes will surely cause a major change in the ability of current Fenway residents to remain.

Demand Characteristics

According to the EAST FENS PROFILE, the adult population of the East Fens numbers 9,211 and is mostly young (70% under age 30), single (81%) and white (87%). The average household size is small, and only 13% of the households exceed two persons. Mobility is high. Only 19% of the residents have lived at the same address for five or more years. The median income is lower than the city average, but this is partially a reflection of the large student population (61% of the total).

Housing costs have always been a major concern of residents. The Hart Report (a city-commissioned 1977 public opinion survey) found that Fenway residents, unlike residents in Boston's other neighborhoods, are more apt to move from their apartments because of a rent increase than for any other reason.

The demographic characteristics of the population are sure to change as regional housing pressures affect the Fenway housing market. Preliminary analysis already shows an increase in the number of residents employed in white collar positions and the percentage of residents in the non-college age, young adult age group. Predictions based upon regional population and demographic trends have indicated that the Northeastern Region and Massachusetts will both have up to a 20% decrease in the college age population by mid-decade.* Since Boston-area universities draw heavily from these areas, there should be a decrease in the student population

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* *High School Graduates: Projections for the Fifty States. National Institute of Independent Colleges and Universities, pp. 6 & 7.*

unless intra-regional dynamics cause areas with concentrations of students to remain student-dominated. In its Master Plan, Northeastern University has anticipated an enrollment decrease.

One population sector that will probably remain stable in size is the elderly. They are unlikely to decrease in number because the Fenway has a significant amount of housing for the elderly (approximately 700 units).

Summary of Current Housing Market Dynamics

Considering supply and demand together the East Fens appears to be a housing market ripe for reinvestment. The stock is in reasonably decent condition and is diverse enough in type to attract everyone from the pioneering homeowner to the traditional private developer. And overall there's room for rents to move upward. Nearly 10% of the stock has been turned over in the past two years, and traditional real estate brokers are again entering the market.

As the Economic Research Associates' report states:

> *The Fenway is expected to undergo a considerable amount of pressure to its housing stock over the next decade. This is basically because demand which cannot be satisfied within the Back Bay or the South End will likely flow into the Fenway. Not only are prevailing property values lower, but many projects occupied by students and the elderly are reportedly experiencing operating losses based upon discussions with several property managers. The opportunity to realize rental rates which are 15-40% higher than those on controlled units is likely to encourage an accelerated rate of rehabilitation within the Fenway. To the extent this materializes, some displacement of the elderly and students can be expected, much like what occurred in the Back Bay over the last 10 years.**

The ERA report and the Harvard study both predict that initial pressures will concentrate on the smaller structures in the rowhouse-lined blocks of St. Stephen Street, Symphony Road, The Fenway, Edgerly Road, Gainsborough Street and Hemenway Street. These are, in fact, the locations of early condominium activity.

**Economic Research Associates, p. 56.*

The pressures will probably not hit the tax-titled, highly financed larger apartment buildings until after similar buildings in the South End, Back Bay and other downtown neighborhoods stir reinvestment interest. These buildings require a tremendous infusion of capital and development expertise.

Thus, the East Fens housing market will have substantial increases in demand for selected parts of its housing stock and a gradual increase in the price of the remaining stock. Market forces should provide rehabilitation incentives for the easily available, easily developable smaller buildings, but larger buildings in average to poor condition will probably continue, for a while at least, to suffer from disinvestment and deferred maintenance.

Housing market trends will put increasing pressures on those at the lower end of the income scale. Students, the elderly and blue collar workers will either pay more for current housing or will have to move to that portion of the supply not yet facing rehabilitation. Nonetheless, even this sector of the market will experience rent increases as financing and energy costs and taxes continue to rise.

OCCUPANCY OPTIONS

Rental Housing

Introduction

Rental housing caters in a marketing sense to those who either do not want to own housing or are unable to own it. For good reasons most students, single persons, transients and the elderly do not want to own a house. And anyone who is poor cannot. Be it by preference or out of necessity, renting is an important and indispensible component of the urban housing scene.

It is doubtful that any section of Boston is more an area of renters than the East Fens. The 1970 Census shows that City-wide, 73% of all housing units are rental. In the South End the figure is 89%, in the Back Bay and Beacon Hill, 91%. In the East Fens nearly all occupied units are rental, fully 98% of the total. Contrast this with Roslindale, say, where 88% of the units are owner-occupied.

Not only is the East Fens now a rental neighborhood it appears that it's becoming more so. At least between the two census years of 1960 and 1970 the proportion of renter to owner-occupied units actually increased from 97% to 98%. Only when the 1980 Census figures become available will the trend of the past ten years be known. However, even if the trend is reversed somewhat the fact remains that by far the dominant form of housing in the East Fens

is rental and will continue to be for many years.

In fact, there is good reason to think that the trend will hold. Since 1970 there has been substantial development of new and rehabilitated rental housing and almost no condominium or cooperative gains (49 units) and only a handful of conversions of small rental buildings to owner-occupancy. Some of the rental projects since 1960 include Burbank Gardens, Norway Housing, Morville House, Church Park, the Historical Society Buildings, 97 and 145 Hemenway Street, 66 The Fenway and St. Germain Street. The SARI project on Symphony Road is nearing completion and the Westland Avenue Associates and Parcel 13 projects are underway. It's true that many of these represent no gain in number of housing units; on the other hand, many of the units replaced were unoccupied prior to rehabilitation and in any event they are remaining as rental and not being converted to condominiums. Also, it's not true that the rental housing created has all been market rate rental. Actually 45% of it (567 out of 1250 units) is heavily subsidized under the Section 8 or the rent supplement program.*

Nevertheless, even though the East Fens is predominantly rental with rental housing still being developed and despite the minimal presence of condominiums and owner-occupied housing, the prospect for the future is paradoxically one of dismay and frustration for both tenants and landlords.

Problems and Prospects

If tenants of rental property in the East Fens are at all unahppy about their individual situations it is either because they fear they will eventually be displaced or they are displeased by the condition, operation or maintenance of theur buildings or the amount of their rents. Often it is both. Above all else tenants want protection. Protection against having to move, against higher rents, against declining conditions, against uncertainty. This is, of course, not unnatural given rising prices and a growing housing demand that is countered by a near stable supply. Protection is sought and institutionalized through rent control, operating regulations and codes and limitations on displacement.

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* *Projects included: Burbank Apartments, Burbank Gardens, Church Park, 66 The Fenway, 97 & 145 Hemenway Street, Morville House, Norway Housing, St. Germain Street.*

Most landlords are in business to make money on operations: to take in more than they spend. No matter how good or concerned a landlord may be he cannot continue for long with a negative cash flow. The extent to which cash flows become or remain negative in the East Fens will, in fact, determine whether or not new rental housing is built or present rental housing is maintained or rehabilitated. Negative cash flows may be avoided be either increasing income or decreasing costs. If for whatever reason one is not possible the other become unavoidable. If neither are possible the landlord has little choice but to sell. This may help the departing landlord (although the sale could be at a loss) but it is hardly likely to help the tenants because a new owner will certainly face challenges as great as those faced by his predecessor. Unless strictly a short-term speculator, a new owner is far more likely to have in mind changes to make the property profitable. To continue along without additional income will be still more difficult as the new owner's expenses will be higher because of increased debt service payments. The former owner may have long ago paid off his mortgage or, at any rate, had a mature mortgage for a smaller amount at a substantially lower interest rate. The changes the new owner may consider first are obvious: either raise the rents or convert from rental to condominium. Large rent increases could in a marketing sense be justified only after substantial, that is expensive, upgrading of the building is carried out. The same holds true for condominiums although at least one conversion in the East Fens was marketed "as is." In any event such changes introduced by a new owner would result in significant displacement of existing tenants.

An alternative is for the new owner to develop the property in such a way that tenants can be eligible for Section 8 subsidies. The owner would receive the required higher income and the chances of permanent tenant displacement would be lessened. This approach, in fact, is essentially the one followed in many of the rental projects undertaken in recent years in the East Fens. Although the motivating factor in such developments from the owner's viewpoint is, no doubt, the increase in rental income rather than the avoidance of displacement, the interests of both tenants and landlords are reasonably well-served by the approach.

But the landlord who has small holdings and is mostly interested in income and not tax shelters and speculative gains--and the East Fens has many such landlords--is the landlord facing the greatest challenges. Government subsidy programs may be too sophisticated or complex to suit his situation. His property may not be appropriate for condominium conversion because of location or marketing considerations. A high proportion of his units may be under rent control. His heating and other building systems may be inefficient and costly to operate. He may have insufficient resources to do anything but the most routine maintenance. Although his building may be fully rented his expenses may nonetheless exceed his income. In short, he is in a bind. If he wishes to continue owning the building he has no options before him other than to hang on, fight for rent increases and tax abatements, delay improvements and cut corners wherever possible. In the long run, however, neither the tenant nor the landlord benefits, nor does the community at large. If he decides he has no choice but to sell he can do so to a speculator, which will only intensify the problem from the tenants' standpoint, or to a developer specializing in subsidized rehabilitation. The most satisfactory, both from a community and a tenant perspective, is to sell the building to a community development corporation and continue it as a rental property, or, alternatively, to organize it as a limited-equity cooperative. A better chance of keeping expenses in line might result through active tenant participation, and rent increases, while perhaps still inevitable, might be viewed in a less negative light. Also, access to public funding and assistance in such cases may be more open. Again, there are instances of this today in the East Fens. Both the Westland Avenue Associates and the SARI Symphony Road projects are examples, particularly the latter, which although the smaller of the two, is wholly a community development corporation owned and operated undertaking. And the alternative option of conversion to cooperative ownership is not without precedence in the East Fens. The First Fenway Cooperative, Inc., was organized by the tenants of a rental building that was up for sale. What is especially instructive is that soon after the coop purchased the building its members raised their own monthly charges by nearly 100%, even though a rent increase of the same magnitude would never have been acceptable from the tenant side

prior to conversion.

Summary

The rental sector of the East Fens housing market has long been dominant and will continue to be so. Additional condominium conversions can, no doubt, be expected but the likelihood of a significant proportion of East Fens housing being condominium in the future is not high as the number of properties suitable for conversion is limited. Moreover, expansion of market-rate rentals does not seem likely for similar reasons. Although the East Fens enjoys an enviable strategic situation within Boston, there simply are not enough quality properties in desirable locations to attract and hold a large upper income population. Remaining is the crucial question of whether or not those existing rental properties that stay rental can continue as reasonably good low and middle income housing. Will they steadily decline or can they be maintained and improved? Can they only survive with large infusions of public subsidies or does the small private landlord still have a chance? The probable outcome is that subsidized rental projects will become more common (assuming funding continues to be available) and that community development corporations and similar non-profit groups, if they are able to mobilize the resources, will play a bigger role, with both increasingly cutting into the market share traditionally held by the small-scale private landlord.

Condominiums

32

Introduction

The condominium approach to ownership is not a new phenomenon. In fact, as a concept, it has its roots in antiquity. The term is latin in origin and refers to the arrangements by which shopkeepers agreed jointly to own and maintain common spaces in bazaars. Such agreements are still basic to modern-day condominiums. Residential condominiums have long been accepted in most European and Latin American cities. The middle income and affluent, unlike their American counterparts, were less willing to move to the suburbs in order to own property. They, instead, bought apartments in multi-family urban housing. Present-day Paris, for instance, is possibly less a result of the sweeping public works schemes of Baron Haussmann than it is of the legal innovations that allowed the middle class to own apartments in buildings that also contained shops on the ground floor and rental apartments in the attic. Condominiums were an urban innovation in this country as well, initially in New York and Chicago in the 1950's, and largely with the assistance of Federal loan guarantees very much like the Federal Housing Authority insurance program that spurred so much suburban development of detached single-family housing in the post-war era. Soon the concept was adapted to retirement and resort communities in Florida and along

the West Coast, where thousands of Americans were introduced to them as second homes. Even as late as 1975 a quarter of the entire condominium market in this country was devoted to second homes.

Confusion often exists over just what a condominium is. It is not a type of building, but rather a form of ownership. In a condominium one holds title to an 'air space' within the walls or property line of a unit. In addition there is also ownership of an undivided interest in the common elements and areas of the building or project such as lobby, elevators, stairways, boiler laundry room and so on. The maintenance and operation of these common elements are left to an owners' association to which all the individual owners automatically belong and to which they pay monthly assessments. The degree to which the owners' association is responsible for the upkeep and operation of individual units depends on the building and the condominium by-laws. Generally, individual owners are free to improve and renovate their units provided such work does not adversely affect other units or the building itself. In selling a unit the owner is entitled to any appreciation in value; conversely, the owner must absorb any losses if the value of the unit declines. Some by-laws allow the owners' association the right to repurchase a unit provided it is willing to match a bid the seller has received on the open market.

The Commonwealth of Massachusetts passed enabling legislation for condominiums in 1963, but their growth as a percentage of the housing stock has only been noticeable in the last six years. Being such a new element in the overall housing picture knowledge of the condominium market is limited. No up-to-date, reliable or extensive body of data has as yet developed to allow factual conclusions as to the present situation. Questions are being asked such as exactly how many condominiums now exist; how many of these are conversions; how much do they cost or should be costing; where are the buyers coming from and where are former tenants going? The answers are slow in coming. Not surprisingly, even less is known of the potential for condominiums in the future: what their ultimate saturation point will be; whether the current prices are highly inflated or will hold; what the long-term effects will be on non-condominium forms of residency, specifically rental housing. Such

uncertainties have led the communities who view themselves most heavily affected by potential condominium growth to stop or at least restrict further conversions until more is learned of their impact.

Boston, with about two percent of its multi-family stock now condominiums, has constrained somewhat conversion of rent-controlled units by enforcing rather elaborate and time consuming eviction procedures.* The Boston Redevelopment Authority is presently analysing condominiums but no action is officially planned to stop outright further conversions.

Brookline has wrestled with conversion evictions for several years now, first by stipulating in 1974 that only a new owner of a unit and not the developer of the conversion itself could evict. When despite this demand remained unabated the Town Selectmen authorized the Rent Control Board to ban all further conversions until a review of the situation could be made. Presently, about 15% (or 1500 of the 11,500 multi-family units) of the Town's rental stock has been converted.

Cambridge has been the strictest of the large cities affected by conversions. The Rent Control Board in that city went beyond the ruling of Brookline to ban conversions of both controlled and non-controlled units without the explicit approval of the Board. At the moment there are about 1000 condominium units (or 8% of all multi-family units) with 700 units pending.

The bans in Brookline and Cambridge have only tentative legal standing. Brookline's statute has been approved by the Attorney General but ultimate sanction will necessitate a test case in a State court. Meanwhile several developers in both municipalities are ignoring the bans and proceeding with conversions, paying whatever fines are levied against them.

Condominiums in Boston: Some Background Data

Tables A and B summarize the present condominium situation in Boston. Buildings that have been constructed as or converted to condominiums number between 300 and 400 which represents somewhere between 4000 and 5300 units or around two percent of all housing

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* *Recent legislation now requires a one-year notice of intention to evict.*

CONDOMINIUM STATISTICS As of January 1980 Table A

Ward	Location	Buildings 1977	1978	1979	1980*	Units 1977	1978	1979	1980*
2	Charlestown	1	1	1	+	9	9	9	+
3	Boston Proper	10	18	32	50	332	381	706	746
4	Back Bay	3	3	4	19	46	46	51	119
5	Back Bay/ Beacon Hill	96	107	149	212	1313	1396	1727	2133
6	South Boston	–	–	1	+	–	–	41	+
11	Jamaica Plain	1	1	1	+	121	121	121	+
19	Roslindale	1	1	1	+	40	40	40	+
20	West Roxbury	–	1	2	4	–	69	214	347
21	Allston	1	–**	1	10	69	–**	50	214
22	Brighton	1	3	3	+	3	64	64	+
+	All others	–	–	–	12	–	–	–	731
	TOTAL	114	135	195	307	1933	2126	3023	4290
Portion of total units that are commercial rather than residential						0	140	194	?
Condominiums as a percentage of total residential buildings (condos considered single family)						2.5%	2.6%	3.7%	5.3%est.
Condominiums as a percentage of total housing units (1970 US Census = 232,413 for Boston)						0.8%	0.9%	1.3%	1.8%

SOURCE: Assessed Values of Real Estate (Greater Boston Real Estate Board)
**1980 figures are from Condominium Conversion in Boston, Report No. 94 Boston Municipal Research Bureau, April 1, 1980. Date of data: March 12.*

***As recorded but possibly in error. 1978 figure may, in fact, be for West Roxbury.*

TOTAL RESIDENTIAL CONDOMINIUM DEVELOPMENT IN BOSTON 1969 - PRESENT

Table B

Year Developed	Number of Buildings	Number of Units
1969	1	8
1970	2	20
1971	7	219
1972	13	145
1973	23	573
1974	28	505
1975	16	236
1976	22	179
1977	21	171
1978	60	897
1979	155	1626
Total as of January 1, 1980	348	4579
Estimated Total January 1, 1980 thru July 31, 1980	60	700
Estimated Total as of August 1, 1980	408	5279

Note: Includes new construction, adaptive reuse, conversion from single family dwellings, etc.

Source: Condominium Development in Boston (Boston Redevelopment Authority, 1980), p. 27.

units in the City. In the East Fens there are at least 4 buildings that have been converted to condominiums. The 37 housing units involved account for less than 1% of the total housing stock. Several buildings are in some stage of conversion though they are unlikely to be complete and sold for another year or so.

Condominiums in Boston: Factors Affecting Demand

A number of considerations seem to be largely responsible for the increasing demand for condominiums in Boston. Some of the demand may be a result of such relatively superficial or transitory factors as fashion--it's the thing to do. A certain mystique surrounding ownership may account for some of the appeal as well. On the other hand, the tight housing market in Boston probably makes any approach to housing attractive to some. Nonetheless, there are some very real considerations that cannot be discounted in analysing the past and present demand for condominiums:

37 Tax Advantages: A survey of the local condominium market* undertaken in 1975 by the U. S. Department of Housing and Urban Development suggested that the driving force behind the popularity of condominiums is the growing proportion of "empty nesters"--couples between 45 and 64 in age whose children have left home. With family size smaller, the house becomes too large. During the present period of dramatically escalating property values, which has carried over as well to property taxes, the cost, time and effort involved in retaining a house which is larger than necessary becomes for many too burdensome. Consequently, condominiums--smaller and requiring far less direct maintenance and upkeep on the part of the owner--become attractive. Although one could sell a too-large house and rent an apartment, the purchase of a condominium has the added advantage of making good tax sense as capital gains taxation is avoided or diminished. If a new home is purchased (in this case a condominium) within 18 months of the sale of the previous home, only the net profits considering both transactions are taxed and not the entire appreciation as would be the case if the seller were instead to rent an apartment. Although substantial tax savings can, therefore, be realized by buying rather than renting, a new one-time exemption on capital appreciation on the

* *HUD Condominium and Cooperative Study*, Vols I & II, 1975. Boston--Appendix A.

sale of a residence is now permitted but only for persons 55 years or older. Theoretically, this should from a tax standpoint make renting somewhat more attractive to older "empty nesters" than was previously the case. On the other hand, the ability to deduct property taxes from income is sacrificed.

The deduction of property taxes (as well as mortgage interest) is a clear and often stated advantage of a condominium over a rented apartment. Whether or not the deduction is a significant inducement depends, of course, on a person's tax bracket. Certainly tax considerations have played a role in the success of the condominium market in the Back Bay/Beacon Hill/Waterfront. In the East Fens, however, those few condominiums that now exist have not been marketed as luxury housing but rather as middle income. While the tax aspects of ownership may in this case prove an advantage, either now or in the future, it is probably only a marginal factor at best in the decision to buy.

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Rise in Construction and Operating Costs: In the greater Boston area the typical price of a new single-family house is currently approaching $70,000. As prices have risen the dream of owning a home has increasingly become a fleeting one for those of moderate income. Along with purchase prices, operating costs are also rising at a rapid rate each year. These conditions seem to suggest that the market in the future will focus on smaller homes and multi-unit developments both in urban and suburban settings. From a purchase and operating standpoint, then, the conversion of East Fens multi-family housing to condominiums would be very attractive relative to buying and maintaining a single-family house. The important question is how well these converted units could compete with single-family houses or with condominiums in other Boston neighborhoods. Size and quality of the individual units as well as the buildings themselves and their specific locations--and the location of the neighborhood--would be the considerations most crucial to whether the condominium market in the East Fens develops and if it does develop the rate at which it does.

Investment: Condominiums seem like attractive investments regardless of one's housing preferences. Most units have appreciated dramatically in the past few years. Large profits seem so

assured that in many instances investors will purchase several units in a building, rent them for a period of time, then sell out when the price is right.

Although one hears stories of units doubling in price in a year or two, such profits are unlikely to be a continuing feature of the condominium segment of the local housing market. First, condominiums have developed in Boston at the same time that the housing market as a whole has shifted from being 'soft' to being 'hot'--from a period of low demand and high vacancy rates to one of high demand and low vacancy rates. In a real sense anyone buying a unit five years ago would make an impressive profit selling the unit today. But the market in the future could just as easily go from 'hot' back to 'soft' leaving the owner in a far less enviable financial position in the event of having to sell. Second, many who became condominium owners several years ago bought into converting buildings which generally command lower prices than buildings that have operated as condominiums for several years. The first purchaser of a unit, in other words, has the best chance of enjoying those well-publicized profits. In time as the total condominium stock expands, first purchasers will be increasingly in the minority. Third, it may be that prices are high and are going higher because Boston is still enjoying a 'honeymoon' with condominiums. The first generation of condominiums--converted buildings usually extensively rehabilitated with new systems--have yet to encounter the inevitable reinvestment that will, in time, be necessary and which will, of course, be the joint financial responsibility of the owners. Buildings that receive only minimal upgrading at the time of conversion will face such problems earlier than those that are totally rehabilitated. This is important as condominiums in the East Fens may--in the pattern of some of the existing ones--be developed with less than adequate upgrading. As many East Fens buildings have been neglected over the past decade or so a sudden rush to condominiums without sensible rehabilitation at the time of conversion could easily result in burdensome problems for unit owners in the future. (This could also mean that if extensive rehabilitation is undertaken that the resulting condominiums may have to be priced beyond the means of moderate income persons.)

<u>Demographic Shifts</u>: A factor favorable to the acceptance of condominiums--and the converse of the 'empty nester' phenomenon--is the entrance into the housing market of the 'baby boom' generation. As a group it seems more drawn to the center city than to the suburbs as a residential location, or at least more so than the previous generation. The proximity to jobs and cultural and entertainment opportunities and the general excitement of an in-town location are likely explanations. Being single or childless no doubt is a factor as well. A survey of condominium buyers in Cambridge clearly indicates the importance that location plays to those in the 18 to 34 year age bracket relative to those older:

REASON FOR CONDOMINIUM PURCHASE Table C

Reason bought Condominium	All Owners*	Owners 18-34	Owners 35-44	Owners 45-61	Owners 62+
Location	42.4	73.3	33.3	30.0	27.3
Preferred owning to renting	39.0	26.7	61.9	30.0	27.3
Felt was most economical housing option	39.0	60.0	14.3	20.0	0.0
Investment	23.7	13.3	38.1	30.0	9.1
Didn't want to leave unit where rented	20.3	13.3	9.5	10.0	54.5

*This category includes those respondents who refused to give their age.
Source: Condominium Conversions in Cambridge; A Profile of New Owners and Former Tenants, City of Cambridge, December 1978.

If, in fact, younger persons constitute a significant potential market for condominiums, then the East Fens seems well suited to serving that market. The location is good in terms of access and available amenities; there's an abundance of smaller units to match the smaller household sizes; and prices are still lower than in nearby areas.

Conversion Shutout: There are those who buy condominiums simply to avoid having to move. Virtually all condominiums in the inner parts of Boston are conversions as opposed to new construction. Unless prior to conversion a building is vacant or is non-residential, rental tenants are faced with the decision of whether to buy or to move elsewhere. Such people do constitute a market although the demand is not always voluntary. This is especially so in the instance of elderly persons who may, on the one hand, be very reluctant to move from units they've occupied for many years but, on the other hand, are equally reluctant--or unable--to take on the financial responsibilities of ownership. Apparently the desire to stay on is strong as the Cambridge study suggests: Over half of those 62 or over bought their units because they didn't want to move. This also points up an important feature of condominiums: the security and peace of mind they can offer.

Rental tenants in buildings about to be converted do, however, have one advantage in their situation. They are typically offered discounts, often quite significant, on the condominium purchase price of their unit. If one would like to stay and is amenable to owning rather than renting--and can afford the cost--such a discount can be an effective inducement.

In the East Fens it is unlikely that a substantial number of tenants would choose or be able to make the transition from tenant to owner. The unusually high proportion of students and transients is particularly telling in this regard. Even if they could afford to buy their high mobility would be incompatible with ownership.

Condominiums in Boston: Factors Affecting Supply

As with demand there are also certain factors that affect supply of condominiums. Some are regional or national in scope while others are largely local, peculiar to Boston or the East Fens itself.

Profitability: Most owners of rental housing who decide to convert their properties to condominiums do so because of the prospect of high profits. The perception is that big money can be made; often the perception is accurate. If circumstances are at all favorable an owner can sell at, say, $25,000 to $35,000 per unit a building

purchased a short time earlier for half that amount. With moderate or full upgrading the margin can--and has been--greater. Of course, there are many instances where profits are far more modest but nonetheless the gap between the capitalized value of an investment property and its sales potential as condominiums is normally great enough to catch the attention of even the least perceptive owner/developer. There is nothing to suggest, however, that capitalization gaps of this size will continue to characterize the Boston condominium market. At the moment rental housing is out-of-favor with investors and condominiums are in. When and if rents climb to more closely reflect the true cost of ownership, or, conversely, if the condominium market slackens (as it did in 1974-1975 when 25% of all units sat unsold), then conversion from the former to the latter may lose its investor appeal.

Divestiture: Some owners are not so much attracted by the profit possibilities of conversions as they are simply discouraged by the poor income potential of today's rental market. Conversion seems to offer an escape from seemingly inescapable losses and headaches. This is especially so when an owner has a large proportion of his units under rent control. The uncertainties of energy costs and tax rates, in the face of a lid on income (from controls or the general sluggishness of rents to adjust upwardly), make ownership progressively less attractive.

Tax considerations are particularly important in another sense as they affect the manner by which conversions are likely to be carried out. When converting from rental to condominiums most owners would be considered "dealers" by the Internal Revenue Service, and thus the owner's proceeds would be taxed as personal income and not at the more attractive capital gains rate. Selling the entire building to a developer, on the other hand, changes the situation for the owner whose profits are now treated as capital gains. Depending upon the owner's income bracket, the tax treatment could mean the difference between making a profit and incurring a loss. The distinctions drawn by the Internal Revenue Service in this matter are very subtle. For instance, the owner cannot survey his tenants as to their interest in conversion without jeopardizing his tax status. In addition, the sales price

must reflect the investment potential of the property and not the enhanced conversion potential. This posture on the part of the IRS may have important implications for the East Fens. It could tend to hold down speculation in those buildings thought appropriate for conversion. Sometimes an owner can take the position that conversion in the only way to sell a property and thereby avoid being treated as a "dealer". This generally occurs in areas long ignored by banks and investors as investment markets. Such a case might be made by owners in the East Fens where nearly all of the recent apartment house sales have been financed by purchase money mortgages and not through conventional banking channels.

Encouragement from the City: Public policymakers in Boston have long regarded condominiums as effective tools for arresting and reversing the decline of intown neighborhoods. This is mostly an outgrowth of the view that condominiums result in a more stable and concerned community. But the City has also encouraged condominiums for another more basic reason, namely increased tax revenues. In the early 1970's conversion of rooming houses and dormitories to condominiums, particularly in the Back Bay, was correctly perceived as a way of expanding the tax base through upward reassessment and by bringing onto the rolls property once tax exempt. Since the first round of condominium buyers were for the most part "empty nesters" or young professionals, condominium development was seen as a way of introducing a new group of owners to the city who would put relatively less demand on services such as schooling and welfare than the renters or students being replaced. Consequently, Boston set its assessment rate for condominiums at 23% of sales price as opposed to the normal 40% for detached single-family houses. This policy has benefited the City as the rise in sale prices has outpaced the general price increases. Even with the preferential assessing treatment Boston has reaped tremendous new revenue from conversions. As an example, consider a two-bedroom apartment which formerly rented for $450 and later was sold for $70,000. The tax bill on the rental unit might run about $1900 a year; while as a condominium, under standard tax procedure, the new tax would increase by over 200% to $4071. The tax gain to the City is amply demonstrated by the HUD survey (Table D) taken in 1975 when market prices were considerably lower than today.

Although condominium development has been welcomed by the present City Hall administration this could change as political pressure mounts by those concerned with displacement and other social issues surrounding conversions.

EFFECTS ON TAX REVENUES - SAMPLE OF BOSTON CONVERSIONS Table D

Case	Previous Assessment	Previous Tax Bill	New Assessment	New Tax Bill	Percent Increase
A	$ 70,000	$ 14,000	$ 76,500	$ 15,300	9.3%
B	340,000	68,000	448,000	89,600	31.8
C	190,000	38,000	242,000	48,400	27.4
D	210,000	42,000	260,000	52,000	23.8
E	150,000	30,000	252,000	50,400	68.0
F	361,000	72,200	420,000	84,000	16.3
G	1,200,000	240,000	2,560,000	512,000	113.3
H	114,000	22,800	196,000	39,200	71.9

Source: HUD Condominium and Cooperative Study, 1975. Appendix A. (using data supplied by the Boston Revevelopment Authority.

Problems and Abuses

In its 1975 national survey of condominium markets, the Department of Housing and Urban Development identified a number of abuses reported by buyers in various parts of the country. Underestimation of operation and maintenance expenses ("lowballing") is a typical complaint in instances of new construction or projects where a gradual pull-out by the developer can leave the owners' association with a number of unanticipated common charges. Other abuses, associated particularly with large complexes, tend to arise when the developer arranges for himself lucrative management or recreational fees and landleases ("sweatheart deals") which the new owners then become saddled with for several years or sometimes forever. The HUD study was careful to point out, however, that none of these abuses were at all widespread in New England. The general conserva-

tism of the local real estate community make exotic ownership or management arrangements more difficult to sell. "Lowballing" is also less common primarily because most New England condominiums result not from new construction but from the conversion of rental buildings for which operating and maintenance figures are available. Finally, New Englanders accepted condominiums later than elsewhere in the country and were, therefore, able to profit from the experience of others. In fact, HUD reported in its study that New Englanders expressed the highest level of satisfaction and the lowest number of complaints relative to buyers in other parts of the country.

One complaint voiced locally, though, was the lack of decision time extended to potential buyers in buildings being converted. Many developers were criticized for high pressure tactics. That developers of condominiums are anxious to convert a building in as short a time as possible is understandable. First of all, short term

financing is often obtained at a premium--two or three percentage points over prime rate--and this can quickly erode potential profits. Other elements of overhead--taxes for instance--must be carried as well. Secondly, the risk element of conversion places a premium on time. Not all conversions succeed financially and the longer units remain unsold the greater is the chance for failure. Tenant resistance can result in delays, and marketing, construction or rehabilitation, and financing are all steps with pitfalls. The recession of 1974 left hundreds of unsold condominiums in Boston and developers have been cautious ever since.

Developers regard conversions in a sequence. Each one has its own set of problems, its own financial package and its own set of risks. The higher the risks, the more logical it is to charge as much as the market will bear. To do otherwise is to forego profits that might otherwise offset losses on other projects or carry the developer over long dry spells between projects.

The factor of risk is doubly important in a neighborhood such as the Fenway which remains an essentially untested market for condominiums. The unusually large student and transient population and the lingering arson connotations cannot be viewed as overly conducive to condominium development. The controversial aspects of conversion are also seen as increasing the risks locally. Controversy seems to be endemic to the Fenway which has long been an

arena within which residents were pitted against landlords, institutions, developers and the city government. That condominium developers might approach such an atmosphere rather cautiously is not surprising. One might rightfully reason that these neighborhood factors would be reflected in lower property prices. Although prices may be low relative to other nearby neighborhoods, for most converters it is a question of risk and not price. And the risk of developing in the Fenway may be so high that the potential rewards are insufficient.

Opportunities

The essential concept underlying condominiums is ownership, ownership of a unit and a portion of the common areas of the building. It is, in fact, tenant ownership. By all rights the concept should be attractive and laudatory to everyone except transients and students. However, there's a falling out over the virtues of condominiums when the question comes down to money. They're expensive--or seem so--and therefore lower income persons have to move out when buildings are converted from rental to condominiums. They cannot afford the price. The challenge, then, is how to make condominiums affordable for as wide a range of income groups as possible. If most people could afford condominiums, their controversial aspects would be largely nullified. It's probable that State or Federal programs will be attempted with this as an aim; the Commonwealth has just passed legislation setting up a pilot program to purchase condominiums for the elderly as a way to offset displacement. It's $1,000,000 funding, however, is not likely to go very far. More effective would be local initiatives by community development corporations or similar non-profit organizations or by tenants of a building acting as a group to direct their own conversion. There are precedents for both.

In the North End, the San Marco Society has developed a number of one-bedroom condominiums that sold for prices between $30,000 and $40,000, not necessarily cheap but certainly less expensive than comparable Waterfront units. A twenty-unit building on Newbury Street in the Back Bay was recently purchased by the existing tenants just as it was about to be converted. The tenants did their own conversion and were able to keep costs--purchase and rehabilitation--to about $30,000 per unit.

Such approaches need not be overlooked in the East Fens. The mechanics of successfully developing condominiums in this fashion may be complex and drawn out, but with profit for the most part absent from the equation costs are kept lower.

Cooperatives

Introduction

Housing may be owned or rented. Those who own their housing may do so in one of three ways: They may own the building in which they live (and perhaps rent extra space out to others). Or they may become owners by purchasing a condominium, a unit within a larger property. The third way is by ownership of a share in a corporation which holds title to a property. This is known as cooperative ownership.

Housing cooperatives are not well established in Boston. Some do exist and interest in coops as an approach to urban housing is growing, but on the whole they are not recognized and accepted by the public, local officials and the financial community to anywhere near the extent that condominiums are.

A housing cooperative is organized as a non-profit corporation. Members of the corporation own shares which entitle them to occupy one housing unit within the property owned by the corporation. Unlike a condominium the shareholder has no legal title to the space occupied. Unless a unit is purchase outright a condominium owner will have a mortgage just like a suburban single family homeowner. Not so in the case of coops where the corporation itself holds a single mortgage on the entire property.

Cooperatives have a long tradition and housing is only one area where this approach has taken hold. People banding together in a cooperative manner goes back to earliest antiquity but as an organized movement in the modern era the key date is 1844 when 28 weavers in Rochdale, England, established a group called The Equitable Pioneers of Rochdale to be "a self-supporting home colony of united interests." The Rochdale principles have become the generally recognized basis for successful cooperative ventures:

- Democratic control by residents
- Open membership
- Limited return on membership investment
- Education
- Expansion of services
- Cooperation among cooperatives

49 The best known cooperative experiments in early America were of the utopian variety and all-encompassing in application. New Harmony, Indiana and Oneida, New York are examples of entire communities established on cooperative lines. Cooperative housing in the sense used here (low and middle income, limited equity coops) is generally recognized as having begun in Brooklyn, New York in 1918 when the Finnish Home Building Association built an apartment house with no private or public subsidy. The first major cooperative development came, however, in 1926 when the 15 building, 1753 unit Van Courtland Park Apartments complex was built by the Amalgamated Clothing Workers of America. The project was and remains one of the great success stories of the cooperative housing movement. Since 1926 trade union sponsorship of housing cooperatives has been important in giving the New York City area the Nation's largest concentration of cooperative housing. New York has also seen active sponsorship and financing of coops by credit unions, insurance companies and non-profit foundations and associations. In 1975 it was estimated that there were 439,000 units of cooperative housing in the United States; the number today is probably close to 500,000. New York, California and Florida together account for more than half this number. While many of these are of the luxury variety, at least 300,000 are in what can be classified as limited equity cooperatives within reach of low and middle income households.

The Boston region offers far fewer examples of cooperative housing than does New York. The Archdiocese has completed cooperative developments in Beverly, Lexington and North Andover which together include 344 units of new housing. Lincoln Woods in Lincoln was built as a cooperative, financed through the Massachusetts Housing Finance Agency and containing 125 units. Nassau Gardens in Norwood, 204 units built as rental housing, was recently converted to a coop. In Boston itself, Jamaica Towers (278 units) has also been converted from rental to coop and was successful in retaining its 121A tax agreement with the City. There are cooperative conversions currently being organized in Mattapan and the Kenmore Square area. In the South End construction is about to begin on the Frankie O'Day Block which will involve the total rehabilitation of 27 housing units at a project cost of $703,500. Structural repairs paid from CDBG funds, a Section 312 3% loan from HUD, land writedowns, a 121A tax agreement and sweat equity by the cooperative shareholders will all play a part in this complex demonstration project.

Within the past year in the East Fens a 12 unit building has been converted by the residents themselves. The First Fenway Cooperative, Inc., purchased the building for $200,000 which is being financed conventionally by a bank. If not the first example of a moderate income conversion in Boston, it is certainly a pioneering effort that has attracted considerable attention.

Limited Equity Cooperatives

Cooperative housing may be classified as either equity or limited equity. Equity coops are a bit like condominiums in that owners may sell their units (or shares in the corporation) for whatever the market will bid. The extreme examples are the New York coops that are periodically reported on in the media as being both so expensive and so selective and exclusionary in their choice of new members. Coops so set up are normally as expensive as any condominium and thus are out-of-reach to middle and lower income persons.

Limited equity coops are quite different and when we speak of cooperative housing it is this type that is meant. Limited equity is a concept directly derived from the Rochdale Principles and is key to keeping cooperative housing affordable. In simple terms

members of the cooperative are limited in the return they can receive on their investment. It translates to a low "entry fee" when joining the coop and a low return when leaving. Capital gains speculation is removed entirely from the equation. However, the point crucial to the ability of limited equity coops to meet the housing needs of low and middle income people is the fact that the entry fee is affordable, usually no more than the equivalent of 2 or 3 months' rent. Whereas to buy a house or a condominium one will have to raise a large downpayment of several thousand dollars, to join a coop often the payment upon entering is no more than $500, an amount affordable by virtually all.

Condominiums versus Cooperatives

While condominiums and cooperatives share many similarities they also are marked by a number of differences. Some of these have been touched on above but a systematic comparison may be useful to dispel some of the confusion that exists and to point up some of the opportunities not often recognized.

Ownership: Condominium residents own--have legal title to--one or more units and together with their neighbors jointly own common areas and the land. Cooperative residents own shares of stock in a corporation which, in turn, owns the property.

Financing: Condominium residents are responsible for financing the purchase of their units. In other words, downpayments must be raised and mortgages arranged. Cooperative residents purchase shares in the corporation which entitles them to rent a unit from their cooperative. Some units may require more shares and others less depending upon size and type. Limited equity coop shares are normally low enough to make financing of individual cash investments unneccessary. In instances where financing is required (either equity or limited equity) banks may make personal loans. Some financial institutions in New York City make coop loans with shares held as collateral. And recent changes in the regulations of the Federal Home Loan Bank Board suggest that savings and loan associations will soon be able to do the same.

Financing for Future Residents: When a condominium unit is sold the new owner is faced with a downpayment and monthly mortgage payments

different and usually higher than those incurred by the seller. But a cooperative corporation usually has only one mortgage and the new residents pay the same monthly charge (covering debt service, operation and maintenance, taxes, etc.) as the previous residents.

Owner's Liability: Condominium owners are responsible personally for all mortgage and debt obligations including property taxes. If an owner is unable to meet payments the mortgagee can foreclose and the owner must relinquish the unit. Coop members have no personal liability on any mortgage or note as the corporation itself is the borrower with a single financing package covering the entire property. On the other hand, if individual members are unable to meet their monthly payments they must be replaced by members that are able to or, in the end, the corporation may face its own repayment problems.

Extent of Community Control: Condominium owners have title to their units and thus they are able to sell to whomever they please. The larger community--the building or complex--has no control over whom replaces whom. There are instances of condominium developments that have included buy-back options but these have not been particularly well-received as they tend to restrict the ease of resale and consequently can dampen resale value. The condominium community does, however, have some measure of control over the behavior of its members through such measures as noise restrictions, parking regulations, etc., and these are enforceable in the courts.

In contrast, the cooperative corporation has the ability to be very particular in the choice of its members as the corporation controls the transfer of shares and often handles the sale of shares as well. While discrimination on the basis of race or sex or religion, etc., is not condoned, the corporation will look closely at the creditworthiness of applicants and their past performance as tenants and neighbors. The corporation is a democratically structured entity, elected by the coop members. But community control in coops does not rest with board alone. Members exert control over one another because each realizes, consciously or unconsciously, that the health and success of the coop as a whole is at stake if control is not maintained.

Individual Control over the Housing Unit: Condominium owners have for all intents and purposes complete control over their own units--what goes on inside and what alterations or renovations are made. This freedom stems from the legal fact that the owner has title to the unit itself. Coop members have less flexibility in that they own not units but rather shares which entitle them to rent units. If a member wants to remodel the kitchen permission must first be obtained; likewise, if the member wants to sublet.

Maintenance: The implications for maintenance, both of the building and the individual units, do not differ greatly between condominiums and coops. Maintenance within units (painting, refinishing, appliance purchase and repair, etc.) is usually the responsibility of the owner or member. All repairs and maintenance--from minor to major--to the common areas (corridors, roof, systems, grounds) is the responsibility of the condominium association or the cooperative corporation. The owners or members pay for such work in their monthly charges. Coops have one advantage here over condominiums, however. As the communal spirit is apt to be greater in a coop, members are more receptive to performing regular chores or undertaking special projects that are of benefit to the entire community.

Management: On the surface the management of condominium and cooperative housing differs little. In both instances for smaller complexes it is often possible and certainly cost-effective for the residents to undertake the management function themselves. For larger complexes outside management is retained by the condominium association or cooperative corporation. To the extent that cooperative members take a more active interest in the operation of their housing, management costs tend to be less and problems fewer. Furthermore, many condominium units are owned by absentee landlords and rented to tenants. To the extent that this occurs the quality of management may suffer as a consequence of there being fewer actively concerned owners on the scene.

Replacement of Equipment and Facilities: In both cases owners and members pay for replacement through their condominium association or cooperative corporation. Limited equity coops as a matter of course establish reserve accounts so that major expenditures such as a new boiler or roof can be covered without the members being subjected to a large and sudden surcharge. Luxury coops and con-

dominium associations may do the same thing although they more often rely upon special assessments.

Vacancies: What happens if the building is not fully occupied or if occupancy declines over time? Condominium owners have the greatest protection as a group in that each unit is owned outright with its sale being the responsibility of the owner. If a unit cannot be sold, the owner--or developer if a first sale--does, of course, suffer inconvenience and possibly economic loss, but the other owners within the building are not directly affected except in the sense that the potential resale price of their units may be adversely affected. In a cooperative situation all the members are affected by vacancies as through the corporation they all own a bit of the vacant units. As long as they are not occupied the revenues of the corporation are less than theur potential. Coops guard against the possibility of fee increases or surcharges to cover vacancies by creating reserve funds. On the whole, vacancy-induced financial problems have not been widespread with coops. In fact, FHA-insured low and moderate income coops have a record on this score that is better than for all other comparable types of FHA-insured housing.

Costs Associated with Moving: There's a fundamental difference between condominiums and cooperatives when it comes time for a resident to either enter or leave the community. With a condominium unit there is a buyer and a seller of real estate which means brokerage and legal fees, transfer taxes, title insurance and all the many miscellaneous charges that often result. The buyer, of course, must arrange financing as well. With a cooperative, in contrast, all that is being bought or sold is a share or shares in a corporation, a much simpler and far less costly transaction. As noted above, the basic financing is already in place as a single mortgage covers the entire coop. This factor tends to keep coops affordable, particularly when the original financing was obtained during a period of low interest rates. The portion of a new coop resident's monthly payments earmarked for the corporation's debt service on its mortgage is precisely the same as that of the previous resident, whereas the rising interest rates a new condominium owner will inevitably be paying more in financing charges than did the former owner. Also, refinancing is far less complex

in a cooperative situation where one mortgage covers an entire building or group of buildings.

Tax Benefits: In the same fashion as a single family homeowner, both condominium owners and cooperative members may deduct interest payments and property taxes if they itemize deductions on their Federal return. The only difference between the two is that condominiums are financed and taxed on a unit-by-unit basis while the cooperative corporation itself pays the financing charges and the taxes and not the individual members. In the end, however, the benefit is the same.

In Massachusetts the cooperative corporation itself may enjoy a considerable advantage over condominiums in that coops are eligible for Chapter 121A tax agreements while condominiums are not. At least two cooperatives in Boston have been awarded such agreements: Jamaicaway Towers, which successfully had its 121A agreement from when it was rental transferred to the cooperative corporation when the project was converted, and the Frankie O'Day Block, 27 cooperative units now being developed in the South End. Such agreements can be very effective in lowering both initial and continuing real estate tax costs.

A further tax advantage enjoyed by coops locally relates to Boston assessment practice. Condominiums are as a matter of policy assessed at 23% of sales price, substantially more than a per unit assessment on the same building if operated as a rental property. Coops, however, are treated in the same fashion as rental properties when it comes to assessment and, therefore, significant savings to the ultimate housing consumer--the cooperative member--are possible.

Appreciation Benefits: Condominium owners can, like single family homeowners, sell their units for whatever price they want and are able to get. In a time of high housing demand and tight housing supply, coupled with inflation, prices for condominiums tend to rise at each transfer in ownership. Given such circumstances there has arisen considerable speculation in the condominium sector of the housing market. Speculation tends to raise prices to what are viewed by many as artificial heights which has caused some condominiums to be looked upon not primarily as housing but as investments. In fact, it's quite common for several units in a new condominium project to be purchased by an investor and then rented to

tenants until such time as the investor is able or willing to sell the units at profitable prices.

The situation with cooperatives--limited equity cooperatives, that is--is quite different as has already been noted. The bylaws of the coop will stipulate clearly the procedures governing the purchase and sale of shares. The corporation retains an option to repurchase on some basis the shares of outgoing members. In some instances only what was initially received for the shares will be returned. In other words, if a member paid $500 to join the coop 12 years ago, $500 will be returned to him. Normally to this basic par value is added the value of any approved improvements made by the member to the unit. In other instances, a cost-of-living adjustment is made to compensate for inflation. To this may be added some return to the outgoing member of a portion of the amortization attributable to the unit being vacated. The important point is that a person joins a limited equity coop for the use and occupancy of the housing provided and not as a way of making a capital gain. A modest amount is paid for shares initially and a still modest amount is returned to the member when leaving. This limited equity concept is central to the ability of the coop to provide housing for low and middle income persons over an extended period of time. It is also a highly important point of difference between condominiums and the limited equity form of housing cooperatives.

A Further Word on Community Control

A concept fundamental to the cooperative movement is that coop residents constitute a community which by its very nature is able, directly and indirectly, to maintain a level of behavior and concern and even a quality of life that is not generally found in rental housing. Rental buildings converted to cooperatives do tend to improve as places to live. They look and work better and cost less to run. A study by Jonathan E. Zimmer* is one of several that supports this. Zimmer looked closely at ten projects varying greatly in size, age, location and racial and economic mix to determine changes once each had been converted. The experience of several of these coops is summarized here:

* From Rental to Cooperative: Improving Low and Moderate Income Housing. *Sage Publications, Inc., c1977; pp 25-26.*

A - 1523 unit townhouse development in Baltimore, built in 1939 and converted in 1956. Sixty-five percent of the original tenants joined.
Extensive, systematic vandalism by teenagers ended day after conversion; rent delinquency reduced from 30 percent to less than 5 percent during 20 years of cooperative ownership; 250 vacancies filled six months after conversion; management and maintenance staff initially reduced from 60 to 31, and then to 22 in 1973.

B - 400 unit townhouse development in
built in 1940s and converted in 1967. Ninety-five percent of the original tenants joined.
Physical conditions improved through $1,500 per unit rehabilitation program; fuller racial integration achieved; turnover reduced to point where it takes two years for new applicant to receive consideration; improvements to individual units and grounds by coop members.

57 C - 46 unit apartment building in The Bronx, New York. Privately owned and converted to cooperative in 1969. Ninety-six percent of the original tenants joined.
Rent delinquency of $3,000 per year reduced to near zero; vandalism costing $2,000 annually completely eliminated; only three residents moved during first four years of cooperative conversion; extensive improvements to individual units by coop members.

D - 384 unit townhouse development in Illinois. Privately owned and converted to cooperative in 1965. Sixty percent of the original tenants joined.
Annual turnover reduced from 30 percent to 10 percent; build-up in cash reserves allowed for capital improvements such as new doors, floors, roofing, and aluminum siding; overcrowded conditions eased by removal of large families within three years of conversion; not one case of rent delinquency since conversion; improvements to individual units by coop members.

Such success stories are not limited to conversions. Cooperatives built from scratch seem more often than not to conform to the same pattern. Jerry Voorhis observed of the Van Courtland Park Apartments, the historic 1753 unit development in The Bronx built in 1926 as the country's first "true" cooperative:

The Amalgamated project turned out to be a brilliant success. Not only did it provide good housing at considerably reduced cost, it created a true neighborhood in the midst of America's largest city. It brought into being a neighborhood in which forums and lecture courses would be held in all manner of subjects, where nursery schools and summer camps would be organized for children, where cooperative food stores, credit unions, and insurance services would be organized by the neighbors for mutual benefit of the neighbors. Gardens and shrubbery and vines on the brick buildings have come to be prized by these families. And pride of appearance and in "keeping up" the cooperatively owned properties have held maintenance costs to half what they normally are in either conventional "landlords" rental housing or in publicly owned housing.

But what is perhaps most remarkable--though hardly surprising, really--about the Amalgamated homeowners and other similar groups who have followed in their footsteps has been the record of unbelievably low incidence of crime and delinquency among them. Seventy-five percent of the families now resident in the Van Courtland Park homes are either the same families or direct descendants of the families who went to live there on 1926. *

Financing Cooperatives

Cooperatives of all types benefit from the principle of economy of scale: 100 people joining together are likely to get a better price when purchasing (or selling) something than 100 people purchasing separately as individuals. Also, there is likely to be a savings in time and effort as well. If those 100 people join together to create a cooperative housing corporation the cost of financing the construction or purchase of the building should be substantially less than if those same 100 people were to buy separately and finance separately 100 condominium units even when the profit of the condominium developer is ignored. On the other hand, members of a potential coop are not professional housing developers and thus are at a disadvantage on the basis of demonstrable experience ("track record") when attempting to finance cooperative construction or conversion. Also, conventional downpayment requirements usually cannot be easily met by an organizing coop.

* *Zimmer, Op. cit., p 21.*

The chance of success is greater when the cooperative is sponsored by a not-for-profit group which has had earlier successes, has established a reputation and has some resources behind it. This, in fact, is the way most housing coops are created, rather than by persons banding together on their own initiative. Nonetheless, without a wide range of government financing programs most recent limited equity coops would probably not have been possible. So in general tenants of a rental building wishing to convert or non-profit organizations interested in sponsoring the development of coops must take as full advantage as possible of available public funding programs. Not to do so may make a proposed project unfeasible or at least cause it to be beyond the reach of middle income persons. (Although not common, there have been instances of new coops assuming the low interest rate mortgage of the seller thus keeping costs down.)

Many limited equity coops developed since 1950 have benefited from
59 Section 213 of the Housing Act of 1950. This program involves FHA mortgage insurance which while not a subsidy per se does make market rate private financing far easier to obtain. Terms may be up to 40 years with downpayments of 3% or less. It has been among the FHA's most successful program (116,165 units insured up to June of 1977) although at the moment because of high interest rates it is largely inactive.

Section 221(d)(3) is also an FHA insurance program and is directed to nonprofits and cooperatives and permits 100% financing. Formerly, applicants could also qualify for Below Market Interest Rates (as low as 3%), which was a very positive inducement. This aspect of the program, however, is no longer offered, but projects can qualify for Section 8 assistance. Through June of 1977, 132,858 units have been insured under this section although not all of these have been coops.

The Section 236 mortgage insurance, interest reduction and operating subsidy program was responsible for at least 20,000 coop units but rapidly rising operating costs have cause many projects to become seriously troubled. It is now an inactive program.

HUD's Section 202 program has been used for senior citizen cooperatives although it has more often resulted in rental projects.

Involved are long term direct loans at interest rates well below the market level and up to 100% financing.

Section 8, HUD's currently most active and extensive program, lowers the rent paid by qualified tenants to no more than 25% of income. It can and has been used in cooperative situations. A very important point to stress is that while coop members may receive Section 8 commitments, condominium owners cannot. This fact alone has the potential for making coops far more capable of playing a role in the low and middle income housing market than condominiums.

Coops are also eligible to receive Section 312 rehabilitation loans which at 3% interest will prove useful once a cooperative is in possession of a building. The Frankie O'Day Block project now underway in the South End is a local example.

Community Development Block Grants (CDBG) are available to non-profit neighborhood-based groups attempting to establish cooperative housing. They may be used for acquisition, reconstruction and rehabilitation; for administrative and start-up costs; studies and technical assistance. These funds are in short supply and eagerly competed for, however. Again, the Frankie O'Day Block project has benefited from this program. Large amounts of CDBG money were used. by the BRA to stabilize the nine buildings involved.

The newest source of cooperative financing is the recently established National Consumer Cooperative Bank. Just now beginning to function, the Bank has an initial capitalization of $300 million and is authorized to borrow an additional $3 billion. All forms of not-for-profit cooperatives are eligible for loans and for technical assistance. Although the Bank must make loans at the "market" rate, the term and downpayment requirements are flexible. In some special cases below market rate loans can be written. The Bank will naturally be committed to the concept of cooperatives and thus more receptive to loan proposals than other sources that are less familiar with coops. The Bank has recently opened a regional office in Boston which may have an influential effect on the acceptance of coops in Massachusetts.

New and innovative approaches for financing cooperatives are being developed including graduated payment mortgages, indexed loans and

various kinds of leasing and syndication arrangements. Some possibilities include active support and encouragement of coop development by existing non-profit groups and foundations particularly through such devices as revolving loan funds. The banking industry may soon be receptive to establishing multi-bank mortgage pools. The state sale of cooperative housing bonds through the Massachusetts Housing Finance Agency (for new construction or substantial rehabilitation) is a possibility. Similar initiatives by the City of Boston are not inconceivalbe. City and state mortgage guarantees for coops are used elsewhere and could be instituted here too. Tax increment financing such as is used in California is another possibility. City and state grants to embryo coops might be made in specific instances to cover start-up costs and technical assistance or for preliminary work prior to rehabilitation. The Frankie O'Day Block project offers a precedent for this in that substantial CDBG funds were used for building stabilization. And Symphony Area Renaissance, Inc., was also awarded CDBG money to cover administrative expenses for its Symphony Road project (rental rather than cooperative, however).

Cooperative Conversion

Cooperative housing may be created in any of three ways: A building or complex may be contructed as a coop usually on a pre-sold basis. Or a building or complex may be constructed as a rental project with an option for early conversion to cooperative ownership. Or an existing building or complex may be converted from rental to cooperative, either with some rehabilitation undertaken at the time or converted "as is".

Conversions warrant the most consideration in the case of the East Fens where there is almost no undeveloped land available for new construction and where demolition of existing housing to make way for newer development is politically frowned upon. On the other hand, there are many East Fens buildings that because of location or character will probably either never be coveted by condominium converters or will encounter great difficulty in remaining in--or returning to--a healthy state as rental properties. It is in such instances that cooperative conversion may offer the last and best hope.

The impetus for the conversion of an existing building to cooperative ownership may come either from within or without. Some or all of the tenants may decide for a variety of reasons that conversion is preferable to the present situation or a possible future situation (e.g. decline of the property, condominium conversion). The building's owner, too, may consider conversion as an alternative means of divesting himself of the property. At other times the conversion process can be initiated from outside the building by a local community group, non-profit organization, community development corporation or an organization--local or national--whose aims are specifically the encouragement and creation of cooperative conversions. These two avenues to conversion invariably meld together at some stage: Existing tenants in thinking about conversion usually end up working with outside groups or seeking out a sponsor. Conversely, outsiders must eventually work with the existing tenants and the owner. Vacant buildings present a different situation and here a sponsor is unavoidable.

As earlier mentioned cooperative conversion can be a positive alternative in situations where a rental building is declining or condominium conversion is imminent. Owners of limited dividend rental buildings may also be attracted to the idea of cooperative conversion. Most limited dividend project owners are primarily interested in tax shelter. Usually they do not live in the community and have little active concern in the project or its management. Such absentee ownership may be combined with management and market conditions that threaten the continued success of the property--conditions that a conversion to a cooperative structure may solve by developing a meaningful degree of resident concern and involvement in the operation of the property. In certain situations it is possible for the existing tax shelter advantages to be retained by the owner after conversion through the device of a leasing coop. In other words, a nonprofit cooperative corporation owned by the residents assumes effective control though not ownership of the property for the balance of the tax shelter period. The coop may also hold an option to purchase the property once the owners are in an advantageous tax position to sell.

Cooperatives and the East Fens

Does the cooperative approach to housing hold promise for the East Fens? And does the East Fens possess any characteristics that might make cooperatives particularly suitable? In both cases the answers seem to be yes.

Probably the greatest opportunity provided by cooperatives is the positive effect their development could have in the East Fens on limiting displacement caused either by rapidly rising rents or condominium conversion. As a coop a typical East Fens building would have a better chance of keeping costs down. Operating and maintenance expenses could be better controlled while "sweat equity" by members could further lower costs. In buildings that have a large proportion of rent controlled units, monthly charges under a coop scheme would become more equitable as decontrolled units would no longer be carrying controlled units. Coops would also have a better prospect of qualifying for 121A tax agreements, government financing and loan guarantees for purchase and rehabilitation, and the support of community groups. If a larger concentration of coops were to develop, further economies of scale could result through the joint and coordinated purchase of services and supplies.

By limiting displacement, cooperatives would at the same time be fostering stability and community-mindedness. As it is now, mobility is very high in the East Fens compared to other Boston neighborhoods. High mobility is generally seen as contrary to the creation or maintenance of strong and healthy communities. The relative stability of occupancy routinely associated with coops can have an important secondary role to play in overall revitalization.

Displacement as a result of condominium conversion is more dramatic and invidious in areas such as the East Fens because the change in population is so often rapid and thorough. Income, age, class and status are all likely to be altered. While some change of this type is inevitable and, indeed, desirable in an improving neighborhood, too much change occurring too completely at too fast a rate is not for the best. Developing cooperative housing would seem well-suited as a way to limit and channel those changes likely to

be associated with condominium conversion. The ideal is no doubt a housing situation in the East Fens where choices and opportunities are wide and diverse which means a mix of rental, condominium and cooperative units.

Second to the opportunities suggested by the displacement issue are those presented by the increasingly common situation in the East Fens of basically sound older buildings suffering neglect over a long period. There are numerous reasons to explain such a qualitative decline but in those instances where landlords have perhaps had the will to maintain their properties but haven't had the way, cooperative conversion seems to offer an acceptable way out particularly if their properties are not suitable candidates for condominium conversion. Rent control, high taxes, high energy costs all combine to make rental housing unprofitable from an operational standpoint. If a landlord sees his only option for getting out from under is to sell the property for eventual condominium conversion but (an important but) the building or location suggest against condominiums, then cooperative conversion becomes immediately a possibility. If conversion takes place the landlord has his out, the tenants have a better chance of avoiding displacement and--if the cooperative is effective in organizing itself, in tapping sources of financing and in making tax agreements with the City--the decline of the building could, in time, be arrested and reversed. A local example of such an approach to conversion is afforded by The First Fenway Cooperative, Inc., on Massachusetts Avenue. The building had declined, the landlord wanted to sell and a condominium conversion probably would have been, at best, difficult to accomplish both politically and in a financial and marketing sense.

Although the high mobility characteristic of the East Fens may raise some questions about the appropriateness of coops which after all require a certain level of commitment and participation over time, taking the opposing view may be just as valid, namely that with the establishment of coops, mobility will decrease and stability increase. Certainly within the community at large there exists a sufficiently concerned and involved core of people and groups that could act to encourage and perhaps sponsor cooperative

conversions. The local community development corporations and the Fenway Community Land Trust could be especially effective in this role.

The East Fens also offers potential for cooperatives of a type so far not discussed, either here or publicly in the community. With its very large student population the statistical conditions certainly exist for student coops. Such coops are virtually unknown in the Boston area but are very common elsewhere particularly in the midwest. Private buildings presently with very high student tenancy might be converted with the assistance or through the sponsorship of outside organizations such as the National Association of Student Cooperatives. Less controversial might be the coop conversion of existing student dormitories especially those that in the past were non-institutional apartment buildings.

The Mutual Housing Association Approach

65 There is an understandable tendency of people to lose enthusiasm for helping others obtain something once they themselves have obtained it. Housing is no exception. Once we buy a house or condominium or join a coop or rent an apartment--and are satisfied with it--we tend to take less notice of the plight of others who are not satisfied or are still looking. This pattern helps to make the provision of housing for low and middle income persons difficult. Subsidized and market rate housing is built because of either government encouragement or the entrepreneurial activity of builders and developers, while housing for those in between the extremes receives far less support or attention. High on the agenda of some community-based organizations is the development of middle income housing, the sponsorship of non profit cooperatives being, of course, consistent with this. But again the same tendency to lose interest once a certain level of satisfaction has been reached seems to be endemic. While a group may create a successful cooperative and expend great time and effort in doing so, once the building is built or rehabilitated the cooperative members naturally enough turn their attention to running their building and not to duplicating the process further down the street. What would seem needed is an organization that could take the initial enthusiasm of those starting a cooperative--or otherwise creating

low and middle income housing--and make it permanent and not subject to the decline that results once individual needs are satisfied. Organizations keyed to this concept do, in fact, exist and are often called Mutual Housing Associations.

Mutual Housing Associations (MHAs) have long been a European phenomenon. They are just now beginning to receive some attention in the United States. In West Germany alone there are more than 1800 non-profit MHAs which since 1948 have produced 4.5 million housing units, nearly a third of the total built. Active MHA movements exist in Scandinavia and Great Britain as well. Cooperatives are the favored housing arrangement of the German MHAs but neither rental housing nor condominiums are necessaruly antipathetic to the concept. The cooperative approach, however, seems to hold the most promise for inner urban areas such as the East Fens.

66 A MHA is an umbrella organization whose aim is to build or rehabilitate housing by sponsoring, in the case of coops, separate cooperative corporations which when established and functioning and in possession of a building are "spun off" as largely, though not completely, separate entities. The MHA is interested in going on to the next project and the next. The enthusiam is retained because the prime objective of the MHA is to produce more housing for more members, not merely to occupy housing and maintain it. The basis for the enthusiam is that the MHA has among its members not only those who are already residents of the MHA's earlier projects but those on waiting lists for future housing.

Once a project has been completed and occupied by members, the residents must remain as members of the MHA and the cooperative corporation itself must retain certain ties with the Association. These ties range from educational and management services to financial oversight.

As the size of the MHA increases the expertise it can muster also increases as does its ability to satisfy its members' demand for additional housing. Existing affiliated cooperatives benefit too as the MHA expands because of the economies of scale in management and services that are associated with growth.

MHAs in embryo form now exist in several cities and a national MHA is also being organized. Moreover, legislation has been proposed in Congress that would encourage the formation of MHAs. In Boston an MHA has been created by The Boston-Fenway Program, Inc., and before being publicly announced is awaiting the formation of its first sponsored cooperative.

FINANCING

Private Finance

Introduction

Increasingly in recent years the financing of housing construction and rehabilitation in the East Fens has been accomplished through combining both public and private sources. There are instances of projects financed completely through the private sector and the practice of sellers taking back second mortgages from buyers is still common. This involvement will no doubt continue where favorable conditions exist, but becasue of the predominant nature and condition of the East Fens' housing stock, the trend will be towards employing public funds and programs to encourage and leverage the participation of the private sector. This is particularly so in the case of difficult properties that are unable because of condition, location or market appeal to attract private financing on their own.

The Capital Market and Housing

In order to discuss the private financing of housing one must view housing as an investment that, although distinct, is only one of many investment sectors that make up our economy. It's an investment because individuals, corporations and banks are committing money to it--for purchase, construction or rehabilitation--and are doing so for long periods of time. As a distinct investment sector housing must compete with other sectors for that scarce commodity, capital, and therefore the extent to and rate at which private

financing is used to buy, build or rehabilitate housing is largely a function of the competitive position of housing at any particular time. Banks or insurance companies have before them many options for how and where to invest the capital at their disposal. Individuals, too, have investment options, and how these are exercised, in turn, can affect the amount of money the financial institutions have to invest. The perception of the future, governmental regulations and policies, the costs of materials or labor or energy, taxes, the general economic conditions, all such factors enter into investment decisions and determine whether financing will be available for housing, how much financing and at what cost.

On the surface it may seem that such observations have little relevancy to the East Fens, that they are too "macro-economic." They are, in fact, very important and their importance goes beyond just the arena of private financing into public financing as well. The relationship between the capital market and housing is most forcefully seen and felt when it comes to the cost of borrowing money. Although the difference in monthly payments between an 11% and a 13%, 30-year, $60,000 mortgage may not overpower a disinterested observer, to an interested one--say, a family wishing to buy an East Fens rowhouse or a two-bedroom condominium--the extra $92.50 a month can be disheartening at best, prohibitive at worst.

Sources of Funding -- 1-4 Unit Housing

Private financing for the purchase or rehabilitation of smaller buildings--in the East Fens primarily row or townhouses, in the future perhaps condominium units--is conventionally and traditionally provided by banks, particularly the thrift institutions: savings and loans, mutual savings banks, cooperative banks and credit unions. Commercial banks gear their lending more toward larger projects although in recent years they have come to show considerably more interest in smaller buildings and smaller loans. Thrift institutions differ from one another as to the regulations and regulatory authorities to whom they are answerable. They differ as well in the type and source of funds they attract, the interest rates they pay and charge, and the type of investments they make. The East Fens is fortunate to have in the neighborhood banks of each type.

Savings and loans, such as the Union Federal on Massachusetts

Avenue, hold passbook and time deposits and make residential mortgage loans, mostly for single family homes and owner-occupied houses of up to four units. Mutual savings banks, such as the Suffolk Franklin on Boylston Street, are similar to savings and loans except that they also deal in blocks of mortgages which they purchase from mortgage brokers and from other thrift institutions. Mutual savings banks have greater flexibility in their asset structure and can invest certain portions of their funds in commercial loans, corporate bonds and stocks. Cooperative banks, such as the Workingmens on Massachusetts Avenue, are also quite flexible in the way they can operate. For instance, they are allowed to make construction loans and commercial mortgage loans, both of which tend to be riskier than other forms of mortgage lending.

Credit unions generally make personal and automobile loans with home improvement and first and second mortgages possible but less common. Apparently the only credit union in the area is the Federal Credit Union which serves persons affiliated with Northeastern. They have never written first mortgages and presently are not processing second mortgages. (None of the outstanding second mortgages are on East Fens properties.) Although not now a factor in residential financing in the East Fens credit unions could be if a sufficient proportion of the membership chose to live locally or if the Northeaster Union could be opened up to local residents as a depository institution.

Finally, commercial banks such as the State Street Bank and Trust and the Shawmut National Bank, both on Massachusetts Avenue, have the widest latitude in their investment options and tend to lend money on a short term-high turnover basis: business loans, construction financing, consumer credit, personal loans, corporate and government bonds and notes. Generally less than a quarter of their assets are placed as residential loans.

At this point mortgage banking companies deserve some attention as they are becoming an increasingly active participant in the residential finance business. In structure and approach they are neither thrift institutions nor commercial banks. They are more flexible and entrepreneurial than either, and are now emerging as both very competitive and very imaginative mortgage lenders on both residential and commercial real estate. Some are packagers of very large and complex projects while others are very much involved with owner-occupied housing. Unlike thrift institutions mortgage

banking companies (a local example is Malmart Mortgage Company) do not directly suffer from disintermediation--the withdrawal of funds by depositors seeking higher yields--and thus the availability of funds to lend is somewhat more constant. Mortgage limitations are often less restrictive than those imposed by thrift institutions and rates are sometimes lower, too. Mortgage banking companies associate themselves with large insurance companies, pension funds, even banks, and as a consequence their access to capital resources tends to be impressive. The extent to which such companies have been active on the East Fens is unclear although adjacent to the East Fens, Parcel 7, a rehabilitation project on Massachusetts Avenue, is being financed through Malmart. There may be other nearby examples as well. Certainly as an alternative source of housing finance mortgage bankers seem to offer some encouragement for the East Fens.

The conditions that were so disastrous for thrift institutions during the recession of 1974-1975 reappeared in 1979: high interest rates, fed by inflationary expectations and strong consumer demand have been attracting investors to Treasury Bills and money market funds and away from savings banks. In October of 1979 the Federal Reserve moved to "cool down" the economy by raising the price of the money it lent to member banks. Immediately the rate banks, in turn, offered their favored customers on loans--the prime rate--shot up causing many businesses and developers to delay investment decisions. Under historical circumstances this sort of situation would have been beneficial for banks like the Suffolk Franklin, the Union Federal and the Workingmens. With no ready investments, savers would return to thrift institutions in anticipation of a recession.

Since 1974 the Federal government has allowed a number of innovations in an attempt to reinforce the attractiveness of the thrift industry relative to other investments. Ceilings on passbook interest have been raised and will, in time, be abolished. Various high-yielding certificate of deposit plans have been authorized and minimum balances have been lowered. The introduction several years ago of NOW accounts (interest-bearing checking accounts) was well received. Important, also, has been the more agressive purchasing of mortgages by the Federal Home Loan Mortgage Corporation ("Freddie Mac") which has permitted thrift institutions to

make further mortgage commitments. Bacause of these innovations thrift institutions are now more liquid than they were during the last tight money period, although this liquidity has not been without cost to the banks. The basic problem is still there: savings banks are paying more to attract and to keep money than they are earning on their assets.* The situation has eased somewhat as interest rates--the prime, Treasury obligations, money market funds--have fallen significantly during the spring and summer of 1980, with mortgage rates following but at a slower and less dramatic pace. Bankers, however, are cautious about the trend and already rates have ceased their decline and are once again slowly climbing. They may soon be back to their earlier record levels.

Because of the basic incongruity between mortgage loans and the growth and maintenance of deposits (long-term versus short-term commitments), unstable and fluctuatiing interest rates create great uncertainty in the private finance market. In an attempt to keep this uncertainty to a minimum several forms of Variable Rate Mortgages have lately been introduced by banks. Essentially these result in mortgages that are periodically adjusted as to interest rate in line with the direction of the money market. They offer a certain amount of protection for the lender but also have the effect of shifting some of the uncertainty to the borrower.

If sustained high inflation stubbornly stays with us in the future, "indexing" may become inevitable throughout the American economy as it has become elsewhere particularly in South America. Indexing accepts the notion that if you can't solve inflation at least try to live with it. All prices, interest rates and wages are indexed to the rate of inflation rising--or falling--with it in an automatic fashion. In the instance of mortgages this has some advantages for both lender and borrower. An indexed mortgage involves a fixed low interest rate--typically 4%--coupled with an increase at the end of each year in the remaining principal balance based on a selected cost-of-living index. The advantage to the lender is that a long-term loan is protected against inflation and hence uncertainty is diminished. For the borrower the cost of housing is kept relatively low during the early years of the loan meaning that younger persons particularly are less apt to be priced out of the home-owning sector of the housing market. Although payments on an indexed mortgage will initially be lower than on a conventional mortgage, they will be higher in the later years. On the other

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* *The Federal Home Loan Bank Board has reported that the average savings and loan institution earned only one-tenth of one percent profit in the first half of 1980.*

hand, the payment period can be extended to keep the monthly payments from rising too high.

No American banks have experimented directly with index mortgages but at least one homebuilder-developer has. The Timbers Corporation of White Plains, New York, has offered index--or as they term them, 'real dollar'--mortgages to purchasers of homes developed by them in Westchester County, Georgia and suburban Boston. Presumably a bank or other financial institution is involved indirectly as the funding source although just recently the Timbers Corporation filed with the Securities and Exchange Commission a plan for a public issue of \$20-\$100 million of participation certificates in a 'real dollar mortgage investment trust'.

Sources of Funding -- Multifamily Housing

Multifamily housing activity in the East Fens has for several years been limited to rehabilitation rather than new construction although there are instances of new construction in immediately adjacent areas. The financing of both the purchase and rehabilitation of the East Fens multifamily housing stock has been effected primarily through public financing channels or a combination of public and private. Some recent exceptions include the total rebuilding of the St. Germain Street rowhouses as a unified single-owner rental project, the rehabilitation of ten units above the Amalfi Restaurant and the 44 unit project now being developed by Hamilton Realty on Parcel 13 (Boylston Street). Construction of the Green House (Parcel 3) on Huntington Avenue adjacent to the East Fens is scheduled to commence soon. This market rate project will be privately financed and may be the last new housing so financed in the area for some time to come.

The sources for the private financing of multifamily and commercial residential real estate in general include many of the institutions discussed above: thrift institutions, commercial banks, mortgage bankers. Others enter the picture, however, especially as the size of the project increases.

Life insurance companies are among the most important of these. Real estate is normally well-suited as an investment for the

insurance industry as the long-term investment involved is compatible with the statistical predictability of revenues from policyholders. There is thus a willingness to make commitments over long periods of time. Recently, however, insurance companies have been experiencing a trend similar to the disintermediation that has affected the thrift institutions: Policyholders increasingly are borrowing on their policies thereby diminishing the capital available to the companies for investment. Also, during periods of uncertainty and fluctuating interest rates, insurance companies find it prudent to keep larger amounts of available capital in short-term obligations.

Insurance companies operate as well in the secondary mortgage market buying mortgages, blocks of mortgages or portions of mortgages from the initial lender. The extent to which the industry has participated in the secondary mortgage market in the East Fens is unknown. However, there has been participation in nearby projects.

As a reaction to increased competition and the growing difficulty in retaining and expanding deposits, banks have had to develop many innovative approaches in order to keep abreast of the loan demands of their customers. Some of the various ways banks have attempted to increase or retain deposits have been noted above. To expand non-deposit sources of funds banks are now turning to such devices as Reverse Repurchase Agreements, Commercial Paper, Subordinated Debt, Secondary Market Sales, Mortgage-Backed Bonds and Passthroughs and Stock Conversions. Some of these approaches are either presently not allowed under Massachusetts law or are only feasible for large institutions. They suggest, however, that the banking industry is creatively seeking ways to remain and expand in the area of housing finance.

One innovative program that could benefit the East Fens is the Federal Home Loan Bank's Community Investment Fund (CIF) which was established in the New England Region in 1978 to expand the ability of the Bank's member thrift institutions to increase their lending in low- and moderate-income neighborhoods. The Fund makes available $84 million a year in "new" money which within the context of certain guidelines may be borrowed by member banks at somewhat below market rates. There are two FHLB member banks in the East

Fens: Union Federal Savings & Loan and the Workingmens Cooperative Bank.

A major source of private housing finance in the East Fens and elsewhere is represented by sellers acting as financiers to buyers. Often it is an advantage, particularly from a tax standpoint, for the seller to receive payment for his property over a period of time rather than all at once. Conversely, there may be an advantage to the buyer who may be unable to finance the full amount through conventional sources. As a consequence, a first mortgage for, say, half of the sales price will be written by a bank with the buyer putting forward a small cash downpayment, and with the remainder made up as a second mortgage between the buyer and the seller. Such arrangements are made for both small and large buildings but the attraction usually is greatest not for owner-occupants but for commercial landlord/developers.

76 The Residential Mortgage Decision -- 1-4 Units

In deciding whether or not to make a mortgage loan on a smaller building, the chief concern of a banker or other lender is the ability of the borrower to repay the loan which, in turn, is suggested by the borrower's financial situation. When the housing in question is a single-family home the financial situation of the borrower essentially means his or her income. In 2 to 4 unit buildings the potential rental income is considered in the analysis, too. If the figures when worked out show the carrying costs of the mortgage, the taxes and the insurance exceeding 25% of the gross household income, the lender will tend to be cautious. Such added factors as other indebtedness--consumer loans and such--will further encourage a cautious approach.

Collateral is the lender's second concern. A mortgage loan is a contractual promise by the borrower to pay back the lender a certain amount of money over a specified period of time. The lender secures this promise by attaching something of worth to the agreement. While bank accounts, investments, the assets of co-signers might all serve as collateral, the usual arrangement is for the property itself to be the collateral. The lender, then, must estimate the value of the property and determine its worth in relation to the mortgage amount. Two methods of accomplishing

this for smaller buildings are to consider recent sale prices of comparable properties in the neighborhood and to compare the sales price with an estimate of the depreciated replacement cost.

The speculative nature of the East Fens housing market and the few recent conventional mortgages written in the neighborhood make the first method--comparables--a less than satisfactory way of determining value. The second method--replacement cost--may not be any better. Clearly in the East Fens the cost of new construction would exceed typical asking prices for existing buildings on a unit-for-unit basis. So would not existing buildings compare favorably with newer buildings when competing for investment money? This would normally be the case, but only in newer neighborhoods where the existing stock is closer in condition and amenities to new construction. In older neighborhoods like the East Fens, the replacement costs do not not tell much about the worth of an existing building. Since the turn of the century, when much of the local housing was constructed, taste and preferences have changed. A new building, though it may house the same number of people, will do so in substantially different ways--in design and layout, in efficiency and in comfort. The buildings in the East Fens are quite often functionally obsolete; the room sizes, services and equipment might all be inappropriate by today's standards. Only when substantial rehabilitation is undertaken will an older building compare favorably in qualitative terms with a new one. But in terms of cost substantial rehabilitation does not always compare favorably with new construction. Rehabilitation costs, including acquisition, can often be as much as starting anew. The risks involved may be higher as well: unanticipated structural problems can arise, for example. At risk also is the resale value which might not be as high as for a newer building. All of these factors make the replacement cost approach to determining value an inappropriate and generally unfavorable one in neighborhoods like the East Fens.

Using the income of the building is the usual approach for setting value. But in most cases with small buildings rental income, although present, is not generally reflective of value because the owner's first concern is not to maximize income. Rather, the owner occupant's first concern is his own shelter. On the other hand, when small buildings are operated as commercial real estate

(residential) and not owner-occupied, then rental income is the most accurate determinant of value and will be used as such.

The Residential Mortgage Decision -- Multifamily

Many of the factors cited above also apply to multifamily loan decisions. Lack of widespread lending and functional obsolescence of the buildings make comparables and replacement cost unsatisfactory as methods for determining value in the East Fens. However, larger multifamily buildings operated as commercial real estate are best analysed as to value through the income approach tempered by careful consideration of the various characteristics of the building and its locations. With smaller buildings the homeowner's income plus any rent received is the chief determinant in making the loan. With a multifamily project the income of the building itself determines the value. Although a 25%-35% loan-to-income ratio is usual for small buildings, no comparable rule of thumb can be applied to multifamily properties. Each parcel is unique and must be judged on its own. A neighborhood like the East Fens has relatively wide variations in building conditions, tenant mix and neighborhood setting. A lender may pass up a situation where 50% of the gross rent is available for debt service while approving a loan application on a building offering only 35%.

Conclusion

Private financing will continue to play a role in the East Fens. Those wishing to purchase and rehabilitate small buildings either for owner-occupancy or rental will have to rely on banks and other mortgage lenders. Sellers will still take back second mortgages from buyers of both small and large buildings. However, private financing will probably be most active in condominium conversion and in partnership with public monies in the development of subsidized or assisted housing. Whether or not condominiums will or can become a force in the East Fens is by no means certain. If they do they will do so as a result of private financing of one sort or another. Section 8 and other subsidy programs involve private financing and to the extent that these programs expand in scope and funding in the years ahead, private financing will expand as well.

Public Finance

Introduction

In recent years public intervention in the housing market has taken a number of different directions. From the supply side, the costs of producing housing have been reduced by such measures as Federal loan guarantees, direct loans from the Commonwealth, and property tax agreements with the City. On the demand side, rent supplements have assisted lower income tenants in meeting their housing needs. Rehabilitation loans and grants administered locally have been a recent innovation. The East Fens has seen extensive use made of each of these approaches.

Federal Programs

Mortgage Guarantees: The six mortgage guarantee or insurance programs outlined in Table A represent all such programs that seem to be applicable to the East Fens, its particular situation and the type of housing stock found there. Some have been used in the area as well as in other parts of Boston. For example, Section 221(d)(3) was used in the Burbank Apartments project (173 units of housing on Edgerly Road, Burbank and Haviland Streets). The Section 221(d)(4) program was a part of the financing package for Symphony Plazas East and West and will be used for the Parcel 3 project now pending for a site on Huntington Avenue at West Newton

Street. The other four insurance programs have not been used in the East Fens either because of lack of interest (e.g. Section 213 for cooperatives) or because of complications in the program requirements (e.g. the pre-sale condition for condominiums insured under Section 234).

A mortgage guarantee represents the Federal government's promise to pay off the loan in the event of the borrower's default. For this promise the borrower pays a one-time fee at the start plus a small annual premium, usually about ½%.

For a number of reasons such guarantees are attractive to lenders and borrowers alike. If the loan is a conventional one, the lender will usually lower the interest rate because the risk of non-payment is eliminated. This discount varies but is generally about 1%. If the project is subsidized, a mortgage guarantee can make interim construction financing less difficult to arrange. Such was the case for the Symphony Plazas East and West project which was insured under Section 221(d)(3). The developer's longterm financing was not available when construction was scheduled to begin, but because the loan was guaranteed, construction financing was reasonably easy to obtain from a commercial bank. A further attraction of guarantees is the lender's inclination often to finance a larger amount of the total cost than might be normal if the mortgage were not insured. (Sometimes, though, such larger amounts may exceed the mortgage limits imposed by the Department of Housing and Urban Development.) From the lender's viewpoint a mortgage guarantee is attractive first and foremost because of the security it adds to the lending process. But also of importance is the liquidity a guarantee creates in the secondary market. Knowing that the loan will be bought by other investors with far less hesitation than with uninsured loans, the banker is willing to offer a lower interest rate when competing for the loan.

A mortgage guarantee works in the following manner: The developer, property-owner or homebuyer applies to the government with a specific project. The Area Office of the Department of Housing and Urban Development reviews the project and determines its feasibility in terms of proper costing, expected income or resale value, the creditworthiness of the applicant, and so on. In their

SUMMARY TABLE - FEDERAL MORTGAGE INSURANCE PROGRAMS APPLICABLE TO THE EAST FENS — Table A

	DHUD PROGRAM					
	207	213	221(d)(3)	221(d)(4)	231	234
INTENDED USE	Rental Multifamily	Cooperative Multifamily	Rental/Cooperative Multifamily	Rental/Cooperative Multifamily	Elderly Multifamily	Condominium Individual/ Multifamily
SPONSOR	Profit or Non-profit	Non-profit	Non-profit	Profit	Profit or Non-profit	Profit or Non-profit
PERCENT OF MORTGAGE GUARANTEED	90%	100%	100%	90%	90%	90%
SPECIAL CHARACTERISTICS	8 units or more	-	Moderate income rents negotiated by DHUD and developer		-	80% of units must be presold
PROJECT COST LIMITS PER UNIT*						
One-Bedroom	$37,000	$37,800	$43,158	$38,549	$36,094	$37,800
Two-Bedroom	$45,150	$45,150	$52,472	$46,594	$43,142	$45,150

Source: U. S. Department of Housing and Urban Development, Boston Area Office.
Date: March 1980.

* Project cost and mortgage amount is normally the same in these instances as 100% financing is the rule rather than the exception.

reviews HUD uses the same criteria any prudent banker would to avoid the possibility of default. Once feasibility is established the guarantee follows almost as a matter of course as such a commitment involves no direct expenditure of public funds and thus isn't tied to budgetary considerations. Not surprisingly, mortgage guarantees constitute the most widely used government housing program.

The per-unit mortgage limits (project costs) shown in Table A are maximum limits, although in actual fact the limit for any project is set individually by the local HUD Area Office. For example, with the Section 221(d)(3) program, the return to the sponsor is limited and consequently the mortgage figure is derived from a capitalization factor based on rents.

Subsidized Financing— GNMA Tandem: At times the mortgage guarantee alone cannot lower the cost of financing to the point where the project is affordable by moderate-income tenants. The Symphony Plazas project was such a case: It wasn't feasible until the Federal government subsidized the interest rates to below market levels. This was accomplished through the Tandem program of GNMA (or "Ginnie Mae"), the Government National Mortgage Association within the Department of Housing and Urban Development. This subsidy has the effect of bringing rates down to about 7½%, although this varies depending on current market borrowing rates. To suggest the size of this program, between January 1974 and September 1977 GNMA issued $20.5 billion in commitments to purchase below-market interest rate mortgages under the Tandem program.

Direct Loans—Section 202: Another way the Federal government is able to lower financing costs for developers is through Section 202 which allows for direct loans to qualified sponsors of rental or cooperative housing for the elderly or handicapped. Morville House in the East Fens is a Section 202 project, the interest rates for which were reduced from the prevailing market rates to 3%. Current program requirements, however, set the interest at the government borrowing rate or just below. Unlike mortgage guarantee programs, Section 202 represents a direct allocation of government funds; consequently the program is limited and competition is keen among developers and sponsors.

Rent Supplements—Section 8: The dilemma of high housing costs can be approached by methods other than through subsidizing the development process. Increasing the ability of tenants to pay--a "demand side" approach--can also be effective. Although first authorized by the Housing Act of 1937 it wasn't until 1974 that subsidizing the consumer rather than the producer became the cornerstone of HUD's multifamily housing policy in the form of the Section 8 program.

Currently Section 8 is the principal source of rent supplements and although expensive in terms of continuing outlay it is the government's most versatile housing tool. Under Section 8 a three-way contract is entered into by HUD, the tenant and the landlord/developer. The assistance payments from the government to the landlord supplement to the extent necessary the tenant's contribution, which is held at 25% of household income. These assistance payments provide a subsidy for the benefit of families whose income does not exceed 80% of the median income of the Boston area. Whereas the mortgage guarantees and loan programs described above are tied to specific projects, Section 8 subsidies can be given either to a specific project or to specific individuals. The three major variations of the Section 8 program are as follows:

Existing. The tenant receives a Certificate of Participation and finds an apartment on the open market. Rents must be "fair market", in other words they cannot exceed certain stated maximums (see Table B). Most certificates are issued through the Boston Housing Authority.

Moderate Rehabilitation. Landlords obtain a 15 year contract from HUD permitting them to rehabilitate their units. First priority for subsidized occupancy of the rehabilitated units is given to existing tenants who meet eligibility requirements. The rehabilitation must cover all units in the building although staged rehabilitation is allowed in order to keep displacement to a minimum. New rents cannot exceed those shown in Table B.

New Construction and Substantial Rehabilitation: The mainstay of the subsidized housing industry involves either

Section 8 Rental Limits (Maximum) — Table B

Section 8 Program	Size of Apartments: Studio	One-Bedroom	Two-Bedroom	Three-Bedroom	Four-Bedroom
Existing[1]	$220	$249	$296	$341	$385
Moderate[2]	$264	$299	$355	$409	$462
New Construction/ Substantial Rehab[3]					
No elevator	$357	$442	$488	$570	$686
Elevator	$371	$478	$540	$718	$787

Source: U. S. Department of Housing and Urban Development (Boston Area Office)
Date: May 1980 with substantial increases expected before the end of 1980.

1 The recipient of the Section 8 subsidy is responsible for finding a unit on the open market. The subsidy covers the difference between the rent and one-quarter of the tenant's income.

2 Property-owner receives a 15 year commitment of rent subsidies. Rental limits set at 120% of Existing Section 8 program.

3 Property-owner receives either a 30 or a 40 year commitment of rent subsidies.

Section 8 Income Limits (Maximum) — Table C

Income Classification[1]	Family Size: One	Two	Three	Four	Five	Six
Low	$10,850	$12,400	$13,950	$15,500	$16,500	$17,450
Very Low	$6,800	$7,750	$8,750	$9,700	$10,500	$11,250

Source: U. S. Department of Housing and Urban Development (Boston Area Office)
Date: May 1980. To be updated Summer 1980 with an 8% increase expected.

1 Projects may have variable mixes of low and very low although generally no more than 30% of the units are very low.

new construction or substantial rehabilitation. Certificates for this portion of the Section 8 program are allocated in Boston through three channels: The Section 202 elderly housing program described above; Neighborhood Strategy Areas*; and the Massachusetts Housing Finance Agency (MHFA) mentioned below. Allocations of such certificates are made well in advance of construction, as often projects are completely unfeasible without the guaranteed cash flow provided by Section 8. In 1979, for instance, a typical Section 8 certificate for a very low income tenant (HUD differentiates between "low" and "very low" as shown in Table C) was $5,500 in Boston. Such certificates are pledge to developers for a forty year period. Consequently, the average Section 8 new construction/substantial rehabilitation contract represents a commitment on the part of the Federal government of nearly a quarter million dollars for a single unit of housing!

Urban Development Action Grants (UDAG): Urban Development Action Grants are HUD's newest source of aid to distressed cities and towns. The purpose of the program is to help communities alleviate deterioration through the stimulation of commercial and residential development. Funds are apportioned among three categories: industrial, commercial and neighborhood. The East Fens would qualify for the third category as any project here would be predominantly residential. A number of UDAGs have been accepted in the Boston area, although most fall into the commercial category. Two projects of particular interest to the East Fens have recently received HUD approval+: The first project--Copley Place--involves two applications for UDAG funds. The first and larger is for the commercial development itself. The grant would be used to pay for the site preparations, estimated at about

** Areas designated as Neighborhood Strategy Areas are eligible to benefit from a coordinated funding effort by City, State and Federal agencies. A wide range of programs are targeted on the NSA: Community Development Block Grants, street and sewer improvements, CETA programs, various housing and economic programs. NSA designation is unlikely for the East Fens largely because of the already high proportion of Section 8 subsidies in the neighborhood.*

+ The commercial portion of the Copley Place UDAG and the Westland Avenue Associates UDAG have since been approved and construction has begun.

$20 million. The second application, for the so-called Tent City project, is housing-oriented and proposes that UDAG funds be used to subsidize moderate-income tenants while low-income tenants are subsidized through Section 8 and upper-income tenants pay market rate rents. The Tent City request is for $5 million and could come either as a grant or a low interest loan.

The second UDAG project is in the East Fens itself. The $1.5 million grant will assist in the rehabilitation of several boarded structures on Westland Avenue. The development team consists of the Fenway Community Development Corporation, the George B. H. Macomber Company and Harrington, Keefe and Schork. Without the UDAG the 97 unit project would not be feasible as a mixed income undertaking.

There are few hard and fast rules governing UDAGs. Funds may be awarded as loans, grants or interest subsidies to be used for a very flexible range of purposes. In general HUD is most interested in those projects that are likely to be instrumental in sparking a revitilization or saving a neighborhood from decline. And the extent to which UDAG funding will leverage private investment is also a prime concern in the HUD review process. The average neighborhood award made in the first year of the program was slightly over a million dollars, which in turn generated private funds, such as mortgage commitments, in a ratio of 6.74. In other words, for every $100 granted by HUD, $674 was leveraged from the private sector. Since the program was initiated in 1977, 648 projects have been funded at a total cost of $1.2 billion.

As might be expected with such a large and flexible program, competition is particularly strong among applicants. The winning proposals must necessarily be joint efforts between local and state governments and politically sophisticated development teams. Whether or not future applications for UDAGs are accepted will greatly depend on the level of private-public cooperation and whether HUD perceives the East Fens as strong enough to survive without additional infusions of public funds.

Federal Programs—Concluding Observations. Several important factors must be kept in mind when discussing any Federal program or subsidy. First, there can be significant delays between the time the application is submitted and the final approval is received. Such delays can be crucial when purchase options or financing arrangements are time-sensitive. In a word, time is money! Second, there can be intense competition among a number of developers for funds and often a lack of political power or development record can keep all but the most established builders out of the running. Finally, and possibly most importantly, the regulations imposed by the government can be burdensome in terms of time and additional costs. Design and safety specifications unique to government-financed projects, accounting and monitoring requirements, and Federally mandated bidding procedures and pay rates are only a few factors that add to the difficulties of working with government subsidies. Often the government (in Boston represented by the State Office of Communities and Development or the Boston Housing Authority) will assign tenants and closely supervise any eviction proceedings, thereby limiting what many landlords consider basic prerogatives in operating successful rental housing. These rules are often inflexible and imposed across an entire region without consideration of neighborhood situation or tenant needs.

State Programs

Massachusetts Housing Finance Agency (MHFA). The Massachusetts Housing Finance Agency is a source of below-market financing for multi-family housing, both new construction and rehabilitation. Through the issuance of tax-exempt bonds backed by State guarantees, the MHFA is able to provide funds to eligible developers. A large proportion of the housing activity in the East Fens over the past few years has benefited from MHFA financing. As with the Federal Section 202 program, MHFA funds are limited and are fiercely competed for each year. Quite often the funds are committed to projects a year in advance of the date the bonds are sold on the tax-exempt market. In addition to being able to lower

the cost of financing, the MHFA normally includes Federal rent supplements (Section 8) in its package so that a project is able to accommodate some moderate- or low-income tenants.

Massachusetts Home Mortgage Finance Agency (MHMFA). The Massachusetts Home Mortgage Finance Agency is very much like the MHFA--they, in fact, occupy the same quarters in Boston--in that both agencies raise funds through the issuance of tax-exempt bonds. The MHMFA was created in 1974 to assist lower-income families in purchasing or rehabilitating one- to four-unit homes. The agency does so by offering money at lower rates through conventional lenders. In order to qualify for a low-interest MHMFA mortgage, the property to be financed must be within a Neighborhood Preservation Area (NPA). In order to be designated a NPA a neighborhood must demonstrate a special need for mortgage financing as well as the potential for marked improvement within five years. Consequently, the NPA as a program necessitates a joint commitment by the City for neighborhood infrastructure improvements and by local banks for making available financing.

Unfortunately, the East Fens has been unsuccessful in its applications to the MHMFA due to the agency's requirement that NPAs be characterized by predominantly owner-occupied one to four unit buildings. In the East Fens only about one third of the residential buildings fall into this category, and they house less than five percent of the population.

Local Programs

At the local level public programs to assist housing rehabilitation are administered through the Mayor's Office of Housing with involvement by FenPAC, the Boston Redevelopment Authority and other public agencies. Most of the funding is ultimately from Federal sources.

Rehabilitation Loan Program: The Rehabilitation Loan Program is designed to assist homeowners in certain areas of Boston where the combination of high repair costs, high mortgage interest rates and the low to moderate incomes of many homeowners often make

home repairs prohibitively expensive. The Rehabilitation Loan Program offers Federal Section 312 loans. Up to $27,000 per housing unit may be borrowed for periods of up to 20 years at a low annual rate of 3 percent. Such attractive terms make it possible to undertake extensive repairs at affordable costs.

The program is directed to areas of Boston where the availability of conventional financing for home improvements is limited, and where the deterioration of the housing stock requires a greater degree of rehabilitation than has traditionally been either possible or necessary through the City's Housing Improvement Program. Were it not for these low-interest loans, rehabilitation of most of the eligible properties would not be economically feasible for their owners.

The Fenway is such a targeted neighborhood. However, due to the small number of owner-occupied buildings and the high cost of total rehabilitation, only two major loans*, totalling nearly $200,000, have been made.

To be eligible for the loan program, the borrower must be an owner-occupant of a one- to four-family home within the designated neighborhood and must demonstrate an ability to repay the loan. Any necessary home repair, from exterior painting to bathroom renovation may qualify for the loan provided that part of the loan is used to remedy code violations.

Along with the low-interest home improvement loan, the homeowner also receives counseling in all aspects of the financing and construction of the proposed improvements. Finance specialists from the Mayor's Office of Housing are able to guide program participants particularly on matters related to the securing of credit. Rehabilitation specialists are also available to assist with home surveys, to advise on what repairs should be made, to prepare work specifications and cost estimates and to help select a qualified general contractor. It should be noted that, unlike the Housing Improvement Program, general contractors must do the required repairs. In addition a rehabilitation specialist will periodically inspect the construction work in progress to insure

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** 82 St. Stephen Street and 30 Edgerly Road.*

that the work is being performed in a proper manner and according to job specifications. Payments are issued to the contractor only when the homeowner and the rehabilitation specialist are satisfied with the completed work.

Administrative costs of the Rehabilitation Loan Program are funded from the City's Community Development Block Grant while the Section 312 loans are funded annually by the U.S. Department of Housing and Urban Development. Program funding levels have fluctuated dramatically over the years. Due in large part to the Mayor's Office of Housing's demonstrated ability to process these loans and to use the loans in conjunction with other rehabilitation efforts, the City of Boston was allotted $2.27 million in Section 312 funds for fiscal year 1979--the largest allocation since the loan program began.

Fenway Demonstration Project: The Mayor's Office of Housing has received a special HUD grant of $515,000 for the rehabilitation of four abandoned buildings on Symphony Road. The properties are pivotal to the community's attempt to revitalize what has in recent years been one of Boston's most arson-prone streets. Unlike traditional Section 312 loans, a community development corporation, Symphony Area Renaissance, Inc. (SARI) is sponsoring the rehabilitation and will manage the units as rental apartments for moderate-income families. It is anticipated that, if successful, this approach can serve as a model for rehabilitating multi-family properties in other neighborhoods in Boston.

Interest Reduction Program[1]: Despite the success of the Rehabilitation Loan Program in leveraging housing improvements with Section 312 loans, certain drawbacks are associated with the program: Funding levels have been uncertain and it has been difficult to predict when additional areas of the city might become eligible for the loans. Also, private lending institutions have no role in the financing so that the potential "spin-off" of increased bank involvement in a neighborhood is largely absent.

To offset these drawbacks the Interest Reduction Program was

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[1] *Also referred to as the Multi-Unit Housing Improvement Demonstration (M-HID)*

designed to extend the benefits of Section 312 loans to other areas of the city in partnership with private lending institutions. In order to reduce the monthly payment on a home improvement loan to an affordable level, the program pairs a public grant with a privately financed FHA Title I Property Improvement Loan which effectively reduces to 3% the interest rate on a loan with a 12-year term.

> FHA Title I Loan - Privately issued, Federally insured home improvement loans, the most attractive feature of which is the longer 12-year term. The interest rate on Title I Loans is presently set at 12% with a maximum of $5000 per unit up to a total of $25,000 per structure.

> Interest Reduction Grants - Funded from the City's Community Development Block Grant, the size of these grants depends upon the total cost of the contemplated repairs and the terms of the Title I Loan. The grant equals the amount needed to reduce the interest rate to 3%.

Without the Interest Reduction Grant, the monthly cost of a 12-year, $10,000 FHA Title I Loan would be $131, while with a conventional 7-year, 12% loan, the monthly payment would be $177. A recipient of an Interest Reduction Grant, however, would pay only $83 per month.

The program is administered by the staff of the Rehabilitation Loan Program and, for the most part, the technical assistance offered and procedures used are the same as for Section 312 loans. The program is presently being offered in two Boston neighborhoods: In the Fenway it is directed primarily to investor-owners of residential buildings of three or more units. In the McLellan/Bradshaw section of Franklin Field, the program is available to owner-occupants of one- to six-family housing. In both areas, in order to qualify for the grant at least 70% of the rehabilitation work must be for correcting sanitary and building code violations, and/or for major system or structural repairs, and/or for energy conservation improvements.

In the Fenway certain guidelines have been established for the pro-

gram: The building must have at least 50% of its interior space in residential use. Health and safety code violations must be attended to first before other repairs considered important by the owner are undertaken. The program cannot be used for substantial rehabilitation and evictions cannot result from the improvements.

After two years of program operation, 34 applications have been received by FenPAC. Of these eight have been approved.

A vexing problem in the East Fens which makes programs such as this one less in demand than they might be in other neighborhoods is speculation. Many owners are willing to improve their properties but are at the same time dissuaded from doing so by the operational, financing and bureaucratic complexities of a phased improvement program. All too often given the speculative nature of the East Fens market, new capital investment, even preventive maintenance, will not return as much profit to the owner as what can be expected from appreciation with no additional investment.

DELIVERY OPTIONS

Private Development

Introduction

The private developer is a person, company or corporation that is in the business of producing housing in order--directly or indirectly--to make a profit. In the East Fens where the opportunities for new construction are severely limited, housing development is nearly synonomous with housing rehabilitation. And rehabilitation is a very different business from new construction. There are more variations and permutations both from the point of view of the projects themselves and in the size and approach of the developer. For example, in the East Fens projects presently underway range from an owner-occupied townhouse on Edgerly Road to the multiple unit, highly subsidized rehabilitation at 97 and 145 Hemenway Street. In one instance the developer may be an individual acting alone; in another a large company with projects and interests throughout the city and region. The contracting and architectural skills and sensitivities called for in new construction and rehabilitation are quite different from one another as well. So, too, the financing, marketing and management requirements.

Rehabilitation will of necessity play a dominant role in the East Fens' future and not just because of the lack of appropriate sites for newly constructed housing. Public policy is far more supportive

of rehabilitation now than in the past and certainly the community view is in agreement. And the attractiveness of rehabilitation in the sense of its effect on employment (it's more labor intensive than new construction), on the fabric of the community (it's less disruptive socially and architecturally) and on energy conservation (the energy expended during initial construction is retained), is now being recognized.

Types of Private Development

Development and developers may be conveniently classified according to the various relationships between the development process and the property being developed. Differing motives for holding or developing property give rise to differing forms of development. In the East Fens those either owning or developing private residential property include 1) the owner-occupant, 2) the landlord/developer, 3) the condominium developer and 4) the institutional developer.

Owner-Occupant: In recent years many areas of Boston have seen considerable development activity by individuals buying buildings and rehabilitating them for their own use. This phenomenon has been widely reported and publicized and although by no means unique to Boston it does seem to be particularly active and well-established here. Typically the owner-occupant seeks out either a small 1-4 unit rowhouse in an older section of the city--Charlestown, say, or the South End--or a house of a later era such as a 'triple decker' or rambling Victorian house in an area further removed from downtown--Dorchester, perhaps, or Jamaica Plain. Owner-occupants, often a family, usually young, college educated and on the upper side of middle income, are normally looking for a situation where their own housing costs--debt service on the purchase and rehabilitation, taxes and even heating--are as close as possible to being covered by the income derived from the rental units. The object, in the short term at least, is not so much to make money as it is to avoid having to spend it. Such a situation is obviously very attractive but the extent to which it can be realized is dependent on the purchase price of the building, the level of rehabilitation required and the ability and inclination of the owner-occupants to undertake the rehabilitation themselves--or at least to act as

general contractor--and afterwards to manage and maintain the property.

Lately the East Fens has seen a fair amount of development of the owner-occupant variety: A number of buildings on St. Stephen Street, lower Symphony Road, Edgerly Road and Hemenway Street have followed this pattern or are in the process of doing so. Most have been privately financed while at least one has benefited from a HUD Section 312 low-interest loan. In time most of the small rowhouse-type residential buildings in the East Fens will be owner-occupied and upgraded to a greater or lesser extent through rehabilitation. Given recent trends this seems inevitable because of the demand for such housing opportunities on the one hand and the East Fens' accessibility and inherent amenities on the other. Only if prices of suitable buildings rise too high is the trend toward owner-occupancy likely to shift in favor of condominiums (owner-occupancy on a more diluted scale).

The problem, however, is that there are not enough properties of this type in the East Fens to satisfy either local or citywide demand. Although more open to question, it may even be that there is an insufficient number in the right location to act as a catalyst for the upgrading of the more common and in most cases intrinsically less attractive East Fens' housing type, the large elevator apartment house. The catalytic effect that small building rehabilitation can have on the feasibility of upgrading larger buildings can be seen nearby on St. Botolph Street where most of the housing is of the smaller rowhouse variety. The few larger buildings only became attractive in a marketing sense once the more prevalent smaller buildings had been rehabilitated and a new neighborhood atmosphere created.[1] This pattern <u>may</u> repeat itself in the East Fens but the likelihood is far less certain.

Presently in the East Fens, one-third of the residential buildings[2] are small, four or fewer units. But these buildings only contain

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[1] *Condominiums have been a large factor in the St. Botolph Street revitalization while owner-occupancy of entire buildings is less common, However, the principle of smaller buildings being in demand before the larger ones remains the same.*

[2] *Excludes dormitories (all large) and lodging houses (some of which are of a size appropriate for owner-occupancy).*

7% of the area's housing units. Consequently, the owner-occupant/rowhouse segment of the local housing picture will never be of the statistical importance in terms of population that it presently is in Beacon Hill, the South End or, at the extreme, the suburbs.

Landlord/Developer: The second and most common type of development activity in the East Fens is that pursued by the Landlord/Developer. Although he may live in one of the properties he owns he is not an owner-occupant in the sense just discussed. His motives are very different. His main concern is to earn a living. He is involved in rental housing--its ownership, management or rehabilitation--as a business. How that business is approached, its size and organization, the manner in which it is carried out, all can vary greatly. Some are absentee owners far removed from the local scene who may be only interested in certain tax aspects of ownership; others are owner-managers who place greater importance on a stable and recurrent source of income. Some are speculators, frequently buying and selling with an eye only to capital gain or the short-term 'milking' of a building; others have kept the same properties through two or even three generations. Some buy and extensively rehabilitate and then direct their marketing to a newer and higher income tenant; others are content--or are only able--to make improvements at a periodic rate just sufficient to keep the properties in an acceptable state without also raising rents to a level that would lead to tenant turnover. Some are large development companies; others are individuals. Some own many properties; others only one or two. Some concentrate, either by intention or circumstance, on the upper end of the market; others the lower. Some rent primarily to students; others to the elderly.

When--and if--it comes to rehabilitation the Landlord/Developer may finance the project privately or he may look to one or several public programs. And, of course, the level of rehabilitation may--and does--range from mostly minor cosmetic to such total interior reconstruction as was done on St. Germain Street.

The future of the private Landlord/Developer in the East Fens is by no means clear. If the area continues to show signs of slow but steady revitalization, certain trends may become dominant.

The property market may become too inflated for the type of speculators common in the past and their interests could be bought out by large development companies with experience in the publically assisted housing arena. If rent control continues or is expanded the smaller owner/manager may see no way out but to sell to developers specializing in condominium conversions, particularly in the case of buildings of architectural interest such as many of those on The Fenway. There will be market pressure on those smaller buildings that are still rental to be sold and rehabilitated for owner-occupancy, or--again if prices become too high--as condominiums. Large privately owned buildings, especially those recently constructed--such as Church Park--or recently upgraded--such as 12 Stoneholm Street--will probably fare quite well and continue as rental properties. They have the advantage of being able without alterations or rehabilitation to compete successfully for higher rentals as the area improves. What will remain will largely be those buildings in the interior of the East Fens that because of location, size or condition elicit little interest on the part of potential owner-occupants, condominium developers or developers of market-rate housing. For such buildings the costs of development could very well be prohibitively high given their ability once rehabilitated to attract tenants willing and able to pay the necessary rents. It would seem that such buildings will either hang on somehow as lower cost rental housing of only moderate quality at best (and with an indeterminant life span), or that, in order for any meaningful rehabilitation to occur, they will have to be developed through significant infusions of public money.

Condominium Developer: A new type of development activity has emerged recently that revolves around the conversion of existing rental buildings to condominiums. Again, different skills and approaches are called for. The factors of risk and timing as important considerations and marketing plays a major role. Rehabilitation expertise--both in design and in construction--is nearly always involved as conversion is seldom done without at the same time doing at least some upgrading.

Only occasionally does the owner of a building attempt the conversion himself. First, he often lacks the experience and special

knowledge required for a successful conversion even though he may be very expert in developing and managing rental housing. Secondly and more importantly, the Internal Revenue Code puts the owner at a distinct disadvantage: If he does the conversion himself the profit on the sale of units is taxed as ordinary income. However, if he sells to a developer for the purpose of conversion, his profit on the sales is treated as capital gains. Consequently, it generally isn't worth the owner's time and trouble to be actively involved in the conversion of property he's owned and operated as rental housing. There are exceptions, of course, and at the moment in the East Fens there are at least two owner-managers who have just completed their own conversions or are about to do so.

Condominiums presently are a very minor component of the East Fens' housing base. In all of Ward 4 there are only 19 buildings classified as condominiums[1] representing 119 units of housing. Most of these are in the vicinity of St. Botolph Street or in the Back Bay. At the moment it appears that there are only four condominium buildings in the East Fens itself, these containing 37 units.[2] Several other buildings are in some stage of conversion although they have not as yet shown up in City records as condominiums.

There are strong indications that conversions will become more and more common as the East Fens continues to improve and as development interest spreads from the Back Bay, South End and St. Botolph areas. The diminishing financial return from rental housing and such factors of uncertainty as rent control, property taxes and energy costs can only encourage further conversions.

The prime and possibly the only candidates for conversion in the East Fens are either those buildings that display some natural charm or attributes that are in demand or those that are in very desirable locations. Many of the small buildings on portions of Symphony Road, Gainsborough Street, St. Stephen Street and Hemenway Street seem to fit into one or the other of these categories.

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[1] *See Table A in the section on Condominiums.*

[2] *50, 52 & 114 The Fenway and 51-53 Hemenway Street.*

Those situated on The Fenway, while often larger in size, would be quite attractive to developers strictly in terms of location.

Although the condominium developer may have a continuing interest in an area, his interest in a single building ends once the conversion is complete and the units have been sold. In this way he clearly differs from the other types of developers. He wants very much, of course, to sell his units as rapidly as possible so as to shorten the period over which he must carry his financing and overhead. Hence the heavy reliance on the sales and marketing side of the business. Speed and timing are important all along the way and therefore a developer will prefer to have several projects going simultaneously but at different stages of completion so that he can more efficiently and effectively deploy his contractors and work crews, sales and marketing people, legal and financial resources. Whereas the Landlord/Developer can at some convenient stage refrain from further acquisitions and still carry on business and make a living, the condominium developer has no monthly cash flow and must continually go on to the next project, and he must do so with the expectation of making a profit from the one-time sales of units.

Condominium conversion is becoming an increasingly controversial issue as it becomes more accepted as a housing option and as its occurence spreads from those neighborhoods where it was first introduced in Boston. As a phenomenon it is linked with such highly charged issues as displacement and gentrification. Recently the City has stipulated that in buildings facing conversion existing tenants must be given a one-year notice of intention to convert. This measure will probably only delay conversions rather than to reverse the trend. But more sweeping regulations and restrictions will probably be imposed in the future. At the moment, then, the situation is somewhat uncertain and although the market in Boston and in the East Fens seems to be there, public policy is capable of severely limiting the condominium developer in the future.

Institutional Developer: Institutions that hold investment property in the East Fens constitute the fourth and final type of developer. In this instance development is more broadly defined to include the mere holding of property in addition to actual construction or rehabilitation.

Northeastern University, the Massachusetts Historical Society and the First Church of Christ, Scientist, alone among the institutions fall into the category of developer in that they own residential property that isn't used for institutional or student residential purposes.[1] These tax-paying properties are not held for the purpose of making money, either through income or speculation. In fact most probably lose money. Rather, they were originally obtained in expectation of future expansion requirements. These requirements have for the most part changed and now these properties are being retained primarily as buffers against possibly incompatible uses or activities. The prospect of the need for new institutional facilities within the East Fens is, with minor exceptions, very dim at the moment. Education institutions are looking ahead to a period of contraction not expansion. Berklee College of Music, which purchased the State Street Bank building upon the Bank's relocation to Church Park, is the only possible exception. Northeastern's long-term policy, as spelled out in its Memorandum of Understanding with FenPAC, is to concentrate any new building on the main campus and, as conditions permit, to dispose of those of its properties in the East Fens that were at one time apartment houses but which are now operated as dormitories. The First Church of Christ, Scientist, has within the past year sold one of its Belvidere Street properties and is now in the process of divesting itself of its remaining holdings on the street. And several years ago it sold all of its property on St. Germain Street which since has been rehabilitated privately.

In the past the rehabilitation and conversion of residential buildings to student dormitories and, to a lesser extent, office space was the chief off-campus activity of the institutional developer. With this phase seemingly ended what does the future hold? A safe guess is that institutional development will be limited simply to the holding of previously owned residential property as protective buffers. The eventual prospect may be to rehabilitate them for public or quasi-public use or possibly to sell or lease them. Residential buildings now used as dormi-

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[1] *Between them the three own 32 buildings containing 223 housing units that are used for residential purposes other than for housing students.*

tories may very well revert to their original uses but only when the demand for them as dormitories has diminished.

Institutions may in the future also act as developers in the sense of participating with community development corporations on rehabilitation projects or in otherwise sponsoring or being involved in revitalization activities, not unilaterally but in a partnership situation.

Public Development

Introduction

Public Development in most ways resembles Private Development although with one important exception: Where the private developer places income or profit first, the public developer's chief motivation is community service. Profits may result from public development--indeed, they must result--but profits are only a means to an end and not the end itself. Public developers are normally created as either corporations or trusts and may be profit-making, non-profit or cooperative in organization depending on the group's objectives, the desired level of community control, tax considerations and other legal and procedural requirements. For simplicity public developers in all their variations will be referred to as Community Development Corporations (CDCs).

There are in the East Fens three CDCs currently organized and active.* Each is a not-for-profit, tax exempt corporation operated for educational or charitable purposes under Section 501(c)(3) of the Internal Revenue Code. At any time, however, each CDC could create

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* *Fenway Community Development Corporation (FCDC), Symphony Area Renaissance, Inc. (SARI) and the Fenway Community Land Trust (FCLT).*

one or more for-profit or cooperative corporations with it, the parent CDC, acting as a non-profit holding company.

As developers CDCs are better able and more inclined to take a comprehensive view of things. The ideal is for a CDC to work closely with both the local community and the city government in devising a long term strategy for revitalization and development. Such a strategy would identify the role to be played by the CDC as well as by other organizations and interests both public and private. The East Fens presents ample opportunity for such an approach particularly as there are CDCs now existing and numerous potential rehabilitation projects (housing as well as commercial) that are waiting to happen. No strategy, however, has been worked out to try to orchestrate the direction and priorities of each CDC or to relate them to what the private and government sectors are doing or are capable of doing.

Elements for Success

A CDC has the best chance of successfully operating if a number of conditions are met both by the CDC and by the community itself. The first and possibly most important point is that the CDC must be well and professionally managed; in fact, it really has to be better managed than a comparable private corporation or a public agency. The former strives only to make a profit and the latter relies on the public purse. In contrast a CDC must make a profit--or at the minimum break even--while at the same time keeping true to its objective of benefiting the community.

Second, to be well-managed a CDC will need at an early stage strong full-time professional assistance. Of the local CDCs only Symphony Area Renaissance, Inc. presently has a full-time manager. In other neighborhoods CDCs have been able to support management staffs by supplementing project development with some on-going reimbursible service such as housing management or job training. Without a full-time professional manager, the difficult task of getting a project through the proposal stages and underway becomes impossibly slow and awkward.

Third, a CDC must have a strong and stable community to draw upon and to rely on. For instance, the organizational strength of CDCs

in the South End and Mission Hill springs from an ethnic identity or a commonly held fear of institutional encroachment. In the East Fens such rallying points are less defined. The neighborhood is predominantly rental and the transiency rate is one of the highest in the city. In 1977, for example, the Hart Survey found that 70% of the area's residents planned to move within three years. Such turnover seriously hampers any CDC in finding and holding a stable constituency.

Fourth, a CDC must establish and maintain broad-based financial independence. Such financial independence implies access to both private and public monies with no absolute dependance on either. Leveraging conventional loans with foundation grants or low-interest government loans is an example of a CDC maintaining a balance between funding sources.

Fifth, a CDC must have political access to all levels of government. Because legislation, administrative decisions and funding commitments are made at local, state and federal levels, a CDC must be able to rely on diverse sources of support including the mayor and city council, state representatives, members of Congress, civil servants and agencies such as HUD, the Economic Development Administration and the National Consumer Cooperative Bank.

Sixth, a CDC must develop and communicate a long-term vision for its constituency. The goals a CDC sets out to achieve over a five or ten year period must somehow be successfully translated to short-term action. Equally important with long-term vision is the ability to demonstrate steady progress and short-term accomplishments.

Seventh, a CDC must develop good relations with other CDCs and with local community groups. Coalitions are essential to achieving goals beyond the capacity of any individual CDC. In the East Fens one potential coalition is the Fenway Community Land Trust which is composed of members of three CDCs, FenPAC and other citizens' groups. As such the FCLT is a CDC itself and is empowered to act as a "holding company" for land while other CDCs arrange financing to, in turn, purchase it from the Trust.

Eighth, a CDC must think in terms of the "multiplier" effects of its actions. Such effects are a measure of the return on any project

or enterprise beyond those monetary returns accruing to the CDC itself. Job generation, improvement or neighborhood property values and community stability are only three ways to judge the multiplier effects of a project.

How well are CDCs able to meet the above requirements for success? The unique feature of a CDC is the potential for community control and involvement. The resources created by a CDC--rehabilitated housing, new business and jobs--strengthen the community internally and its relations with the larger economy. Moreover, a greater proportion of capital is kept within the community with less going back to outside investors. Rather than vehicles for speculation and personal profit, the resources created serve the community and keep prices for housing and services more in line with actual costs and more relective of the local community's ability to pay.

Who controls the CDC? Like any corporation decisions are made by a board of directors or trustees. Who selects the boardmembers, then? In the East Fens the various CDCs have different approaches. Fenway Community Development Corporation elects its directors from its membership which is made up of interested residents of the area. Symphony Area Renaissance, Inc., has one class of voting members consisting of representatives of a local property and business owners association and three institutions in the East Fens. The Fenway Community Land Trust has two classes of memebers, one voting and one non-voting. The former includes the local CDCs, FenPAC and a representative of the Citizens Housing and Planning Association; the latter class is made up of representatives of other community groups.

The degree of community control desired by a CDC will greatly affect the types of projects undertaken. Protracted public debate is inappropriate when projects requiring intense negotiation and discretion are involved. This is particularly true when small parcels in attractive locations are consideration. In such instances a small board of directors representing the larger community is most suitable. Symphony Area Renaissance, Inc., for one, has taken this approach. For projects involving larger and less desirable buildings, a larger decisionmaking body and longer period for deliberation may work just as well. Fenway Community Development Corporation tends towards this pattern.

A cooperative's membership is limited to persons actually participating in the proceeds of the corporation, that is the shareholders/tenants. The members vote and are the ones in control. But the cooperative could as well be a daughter corporation of a larger CDC which, in turn, could have nonresident members and directors.

CDCs represent an opportunity for various interests in the community to combine their energies into one enterprise. A typical urban project of today might include as participants private developers, the city, state and federal governments, and local community groups. The diverse interests represented by such an array can be merged most easily and productively by involving a CDC. For example, the Cambridge Street Community Development Corporation successfully combined the traditionally adverse interests of the Beacon Hill Civic Association and two large institutions--The Massachusetts General Hospital and The Massachusetts Eye and Ear Infirmary. Along with a private developer, the CSCDC rehabilitated a parking garage on Cambridge Street for mixed-use occupancy. Nearer to the East Fens, Roxbury Tenants of Harvard are rehabilitating institutionally owned land for community housing. Within the East Fens itself, the Fenway Community Development Corporation acts in an advisory capacity to the Massachusetts Historical Society relative to its residential properties on Hemenway Street. Presently, FCDC is also involved as a partner in the Westland Avenue project which combines as well private development and the city and federal governments. These examples are particularly important for the East Fens which has a reputation among Boston's development community as a neighborhood beset with contention and activist politics. Through a community-based CDC, the various interests of local community groups might be allied with those of institutions, which are equally concerned about the future of the neighborhood, and established developers. Such a coalition would be in a strong position to lobby for tax agreements from the City or, possibly, rent supplements from the federal government.

CDCs are in a unique position to attract funding from a number of sources. A CDC may obtain financing from foundations as well as from conventional sources such as banks. The government--local, state and federal--is able to fund CDCs through many different programs administered by the Small Business Administration, the National Consumer Cooperative Bank, the Department of Housing and Urban

Development and the Economic Development Administration. In the early stages of a CDC this funding may come in the form of grants for organizational purposes or the assignment of CETA workers or VISTA volunteers. Later, low-interest loans might be made available as equity to leverage conventional financing. The objective of a mature CDC is often to finance new projects through conventional channels as normal businesses do. Access to funding is crucial for a growing enterprise. In their ability to draw from a number of different sources, CDCs enjoy a better chance than private developers of surviving the difficult first three or four years of operation.

The type of funding sought by a CDC might be determined by its organizational framework. To receive foundation contributions the grantee must usually be a non-profit corporation with a federal tax exemption status. On the other hand, the Small Business Administration is more comfortable dealing with a for-profit concern, while the National Consumer Cooperative Bank directs its attention solely to enterprises that are cooperative in organization.

REHABILITATION SCHEMES

Rehabilitation Schemes

Introduction

The rehabilitation schemes summarized below were first presented at the Housing Team meetings held during the summer of 1979. Since then they have been revised and altered to reflect information subsequently obtained and to account for events over the past year, primarily changes in the housing finance market.

There are fourteen schemes involving five East Fens buildings. Each building is a real building which has been treated in two or more hypothetical ways: total versus moderate rehabilitation, conventional versus assisted or public financing, rental versus condominiums versus cooperatives. The purpose of the schemes is to give an idea of the costs involved in housing revitalization, to make some comparative judgments possible and to suggest where both problem approaches and opportunities lie.

Conclusions

A number of clear points emerge when the schemes are studied and compared with one another. First, the cost of financing is a major component of the total annual costs incurred by a building with annual debt service ranging between 41% and 63% of total costs. In order to buy and rehabilitate a building and still keep rents at a below-average level, a landlord needs a break on either the

cost of the undertaking or the interest rate at which the necessary capital is loaned or preferably both. This is most dramatically seen in the case of the Edgerly Road property, a four-unit building. With conventional financing (Scheme A1), the annual debt service per unit is the second highest of any scheme, and on a per square foot basis it's the third highest. This, quite simply, leads to high rents. However, when the same building is purchased at no cost (under the Homesteading Program) and the same scope of rehabilitation is financed at 3% under Section 312, the situation changes entirely (Scheme A3). Annual debt service as a percentage of total costs is, not surprisingly, the lowest of any scheme as is the debt service per unit and per square foot. More importantly, the rents are also the lowest on a square foot basis, despite the fact that total project costs per unit are still close to the highest. The general pattern of the schemes is that lower debt service leads to lower rents.

To suggest the impact of high interest rates on rents, Scheme E2 may be refigured assuming interest-free financing:

Rents for:	E2: Conventional	E2: Interest-free financing
Studio	$259	$142
One-Bedroom	518	285
Small Two-Bedroom	690	380
Large Two-Bedroom	776	427
Rent per square foot	10.35	5.70

The resulting rents are nearly half those of what would be required were the project to be financed conventionally.

On the other hand, operating costs other than debt service are not insubstantial either, ranging as they do from 37% to 59% of the total annual costs depending upon the scheme. For instance, if the above scheme--E2--were to be undertaken at no capital cost whatsoever--no acquisition, no charge for rehabilitation--rents, while certainly lower, would in no way be considered a "free ride." There are, in fact, real apartments in the East Fens that rent for prices no higher than these:

Rents for:	Assuming no Capital Cost
Studio	$ 72
One-Bedroom	144
Small Two-Bedroom	192
Large Two-Bedroom	216
Rent per square foot	2.88

If this scheme is further altered to include a purchase price conventionally financed but still cost-free rehabilitation the resulting rents are higher but still not too unrepresentative of some current rents in the area:

Rents for:	Purchase Financed; Cost-Free Rehabilitation
Studio	$104
One-Bedroom	208
Small Two-Bedroom	278
Large Two-Bedroom	313
Rent per square foot	4.17

This situation actually reflects that of many properties in the East Fens with, of course, a major modification. Rather than having extensive rehabilitation done at no cost, no or only superficial rehabilitation is undertaken. Nonetheless, debt service and operating costs alone are sufficient to result in the above rents. Comparing these with those shown in Table J (Housing Data Base in the Appendix)there are instances where real rents are, in fact, lower than those above.

Looking at all the schemes there's a reasonably clear relationship between the size of the building and the size of the unit. The smaller the building, the more space per unit. Large buildings, small rooms; small buildings, large rooms. Total project cost per unit reflects this as well: generally, the smaller the building, the higher the cost (purchase and rehabilitation). On the other hand, this difference is pretty much cancelled out when the larger unit sizes of the smaller buildings are taken into account; there is, for example, no clear pattern with respect to costs on a per square foot basis.

Rents, however, seem to be higher on a square foot basis for those schemes involving larger buildings than those involving smaller

ones. But, as above, this is primarily because of the difference in the relative size of units and not because the units happen to be in large buildings. Nonetheless, the highest actual rents in each unit category happen to be for units in large buildings.

In comparing schemes the level of rehabilitation appears not to be of significance as a determinant of the necessary rents. Schemes A2 and A3 have the cheapest rents on a square foot basis and both involve total rehabilitation, while Schemes C1, D1 and D2 have the highest rents save one and each is an instance of moderate rehabilitation. Certainly if the same building were purchased for the same price and if the rehabilitation were to be financed at the same rate over the same term, cheaper rents would be possible through moderate rehabilitation than through total rehabilitation because the total project cost would be less. But in comparing different buildings and assuming different financing approaches, rents for comparable apartments will not necessarily vary directly with the level of rehabilitation.

What happens if some of these buildings are rehabilitated and later sold as condominiums rather than held as rental units? A very attractive situation is created as can be seen by Schemes A4, B2 and E4. The total monthly cost to the condominium owner compares favorably in most cases with what the renter of the same unit would pay. The total monthly cost in Scheme A4 is less than that for Scheme A1 (conventional) and about the same as for Scheme A2 (Homesteading and conventional). Only Scheme A3 (Homesteading and 3% financing) yields rents decidedly less than monthly condominium costs. The condominium costs of Scheme B2 are substantially less than Scheme B1 (conventional) and those of Scheme E4 are less than Scheme E2 (conventional) although somewhat higher than E4 (GNMA/Tandem).

Such comparisons are only significant in a superficial way as several factors have not been considered. Common charges, for instance, are not included which could add perhaps a hundred dollars onto each unit's monthly cost (property tax on the land, building operation and maintenance, heating and electricity for common areas, etc.). On the other hand, the tax benefits to the condominium owner are also not considered and depending on an individual's specific tax situation these benefits could cancel out the common

charges.

The most glaring omission in all these calculations, however, is the absence of developer profit. Certainly if profit were to be included the monthly costs would exceed the rent a tenant would expect to pay. The amount of profit is, of course, what would determine whether the buildings could work as condominiums and, additionally, what type of people could or would purchase the units.

Nonetheless, what these figures do suggest is that condominiums are possible and at reasonable costs but only if developed by a non-profit entity such as a community development corporation. If the profit--particularly the high speculative profit--can be taken out of the condominium process, they do, based on this analysis, have a potential role to play in the East Fens.

Profit is, of course, of interest to the rental landlord as well. The 10% return on equity included in the rental schemes can be viewed as a theoretical minimum acceptable to an investor. If a higher return cannot be gained through building operation, the only investment incentive remaining is that provided by the shelter benefits. These can be quite substantial and increase in size as the total project cost increases. Schemes E2 and E3, for instance, offer the greatest potential benefit: $39,792 annually. The extent to which this benefit can be translated into profit, however, is entirely dependent on the owner's business and tax situation. For some landlord/developers it would be attractive, to others it could be close to meaningless.

STREET: EDGERLY ROAD LEVEL OF REHABILITATION: TOTAL FINANCING: CONVENTIONAL	UNIT DISTRIBUTION: - Studio 4 2 Bdrm 4 - 1 Bdrm - 3 Bdrm TOTAL		SCHEME: A1

			Low	High
1.	PURCHASE PRICE:	1		$ 12,500
2.	REHABILITATION COSTS: Stud(__x__x__) 1BR(__x__x__) 2BR(4 x 750 x 35)	2		105,000
3.	NET PROJECT COSTS (1+2):	3		117,500
4.	SOFT COSTS (20% of 2):	4		23,500
5.	GROSS PROJECT COSTS (3+4): Per Unit: 35,250	5		141,000
6.	EQUITY: 28,200 (20 %) 7. MORTGAGE AMOUNT (5-6): 112,800			
8.	INTEREST RATE: a 13 % b 14.06 Constant %			
9.	MORTGAGE TERM: 20 Years			
10.	ANNUAL DEBT SERVICE (7x8b):	10		15,860
11.	ANNUAL OPERATING COSTS:* Low(4 x 1200) High(4 x 1500)	11	4,800	6,000
12.	RETURN ON EQUITY (10% of 6):	12	2,820	2,820
13.	NET ANNUAL COSTS (10+11+12):	13	23,480	24,680
14.	VACANCY RATE (5% of 13):	14	1,174	1,234
15.	RESERVE (3% of 13):	15	704	740
16.	GROSS ANNUAL COSTS (13+14+15):	16	25,358	26,654
17.	NECESSARY ANNUAL RENT PER NET SQUARE FOOT:	17	8.45	8.88
18.	NECESSARY MONTHLY RENT PER UNIT: (Based on net square footages) Studio	18	--	--
	One-Bedroom		--	--
	Two-Bedroom		528	555
	Three-Bedroom		--	--
19.	ANNUAL SHELTER BENEFIT:		$3446	

*Heat not included; paid by tenants.

STREET: EDGERLY ROAD LEVEL OF REHABILITATION: TOTAL FINANCING: CONVENTIONAL WITH HOMESTEADING	UNIT DISTRIBUTION: - Studio 4 2 Bdrm 4 - 1 Bdrm - 3 Bdrm TOTAL	SCHEME: A2

1. PURCHASE PRICE:		1	$ 0
2. REHABILITATION COSTS: Stud(__x__x__) 1BR(__x__x__) 2BR(4 x750x 35)		2	105,000
3. NET PROJECT COSTS (1+2):		3	105,000
4. SOFT COSTS (20% of 2):		4	21,000
5. GROSS PROJECT COSTS (3+4): Per Unit: 31,500		5	126,000
6. EQUITY: 25,200 (20 %) 7. MORTGAGE AMOUNT (5-6): 100,800			
8. INTEREST RATE: a 13 % b 14.06 Constant %			
9. MORTGAGE TERM: 20 Years			
10. ANNUAL DEBT SERVICE (7x8b):		10	14,172

		Low	High
11. ANNUAL OPERATING COSTS:* Low(4 x 1200) High(4 x 1500)	11	4,800	6,000
12. RETURN ON EQUITY (10% of 6):	12	2,520	2,520
13. NET ANNUAL COSTS (10+11+12):	13	21,492	22,692
14. VACANCY RATE (5% of 13):	14	1,075	1,135
15. RESERVE (3% of 13):	15	645	681
16. GROSS ANNUAL COSTS (13+14+15):	16	23,212	24,508
17. NECESSARY ANNUAL RENT PER NET SQUARE FOOT:	17	7.74	8.17
18. NECESSARY MONTHLY RENT PER UNIT: (Based on net square footages) Studio	18	--	--
One-Bedroom		--	--
Two-Bedroom		484	511
Three-Bedroom		--	--
19. ANNUAL SHELTER BENEFIT:		$3,446	

*Heat not included; paid by tenants.

STREET:	EDGERLY ROAD	UNIT DISTRIBUTION:	SCHEME:
LEVEL OF REHABILITATION:	TOTAL	- Studio 4 2 Bdrm 4	A3
FINANCING:	HOMESTEADING & SECTION 312	- 1 Bdrm - 3 Bdrm TOTAL	

			Low	High
1.	PURCHASE PRICE:	1		0
2.	REHABILITATION COSTS: Stud(__x__x__) 1BR(__x__x__) 2BR(4 x750x 35)	2		105,000
3.	NET PROJECT COSTS (1+2):	3		105,000
4.	SOFT COSTS (20% of 2):	4		21,000
5.	GROSS PROJECT COSTS (3+4): Per Unit: 31,500	5		126,000
6.	EQUITY: 25,200 (20 %) 7. MORTGAGE AMOUNT (5-6): 100,800			
8.	INTEREST RATE: a 3 % b 6.72 Constant %			
9.	MORTGAGE TERM: 20 Years			
10.	ANNUAL DEBT SERVICE (7x8b):	10		6,774
			Low	High
11.	ANNUAL OPERATING COSTS: Low(4 x 1200) High(4 x 1500)	11	4,800	6,000
12.	RETURN ON EQUITY (10% of 6):	12	2,520	2,520
13.	NET ANNUAL COSTS (10+11+12):	13	14,094	15,294
14.	VACANCY RATE (5% of 13):	14	705	765
15.	RESERVE (3% of 13):	15	423	459
16.	GROSS ANNUAL COSTS (13+14+15):	16	15,222	16,518
17.	NECESSARY ANNUAL RENT PER NET SQUARE FOOT:	17	5.07	5.51
18.	NECESSARY MONTHLY RENT PER UNIT: (Based on net square footages) Studio	18	--	--
	One-Bedroom		--	--
	Two-Bedroom		317	344
	Three-Bedroom		--	--
19.	ANNUAL SHELTER BENEFIT:		$3,446	

*Heat not included; paid by tenants.

STREET: EDGERLY ROAD	UNIT DISTRIBUTION:		SCHEME:
LEVEL OF REHABILITATION: TOTAL	- Studio	4 2 Bdrm	4	A4
FINANCING: DEVELOPED AS CONDOMINUMS	- 1 Bdrm	- 3 Bdrm	TOTAL	

1. PURCHASE PRICE: 1 $ 12,500
2. REHABILITATION COSTS: Stud(__x__x__) 1BR(__x__x__) 2BR(4 x 750 x 35) 2 105,000
3. NET PROJECT COSTS (1+2): 3 117,500
4. SOFT COSTS (20% of 2): 4 23,500
5. GROSS PROJECT COSTS (3+4): Per Unit: 35,250 5 141,000

	Studio	One Bedroom	Two Bedroom	Sm. Two Bedroom	Lg. Two Bedroom
6. UNIT PRICES*:	--	--	$35,250	--	--
7. EQUITY (20%):	--	--	7,050	--	--
8. MORTGAGE (6-7; 13%/20 years):	--	--	28,200	--	--
9. MONTHLY DEBT SERVICE (8x.1406÷12):	--	--	330	--	--
10. ASSESSMENT** (23% of 6):	--	--	8,107	--	--
11. ANNUAL PROPERTY TAX*** (10x.2529):	--	--	2,050	--	--
12. MONTHLY PROPERTY TAX (11÷12):	--	--	171	--	--
13. TOTAL MONTHLY COST**** (9+12):	--	--	501	--	--

* Based on net square footages. Assuming no profit to developer.
** 23% of sales price, present City policy.
*** Currently $252.90 per $1000 of assessed value.
**** Excludes maintenance and common charges. Also excludes potential tax benefits to owner.

STREET: HEMENWAY STREET LEVEL OF REHABILITATION: MODERATE FINANCING: CONVENTIONAL	UNIT DISTRIBUTION: - Studio 8 2 Bdrm 9 1 1 Bdrm - 3 Bdrm TOTAL	SCHEME: B1

1. PURCHASE PRICE: 1 $ 90,000
2. REHABILITATION COSTS: Stud(__x__x__) 1BR(1 x600x 20) 2BR(8 x800x 20) 2 140,000
3. NET PROJECT COSTS (1+2): 3 230,000
4. SOFT COSTS (20% of 2): 4 46,000
5. GROSS PROJECT COSTS (3+4): Per Unit: 30,667 5 276,000
6. EQUITY: 55,200 (20 %) 7. MORTGAGE AMOUNT (5-6): 220,800
8. INTEREST RATE: a 13 % b 14.06 Constant %
9. MORTGAGE TERM: 20 Years
10. ANNUAL DEBT SERVICE (7x8b): 10 31,045

		Low	High
11. ANNUAL OPERATING COSTS: Low(9 x 1900) High(9 x 2300)	11	17,100	20,700
12. RETURN ON EQUITY (10% of 6):	12	5,520	5,520
13. NET ANNUAL COSTS (10+11+12):	13	53,665	57,265
14. VACANCY RATE (5% of 13):	14	2,683	2,863
15. RESERVE (3% of 13):	15	1,610	1,718
16. GROSS ANNUAL COSTS (13+14+15):	16	57,958	61,846
17. NECESSARY ANNUAL RENT PER NET SQUARE FOOT:	17	8.28	8.83
18. NECESSARY MONTHLY RENT PER UNIT: (Based on net square footages) Studio	18	--	--
One-Bedroom		414	441
Two-Bedroom		552	589
Three-Bedroom		--	--

19. ANNUAL SHELTER BENEFIT: $4,853

STREET:	HEMENWAY STREET	UNIT DISTRIBUTION:	SCHEME:
LEVEL OF REHABILITATION:	MODERATE	- Studio 8 2 Bdrm 9	B2
FINANCING:	DEVELOPED AS CONDOMINIUMS	1 1 Bdrm - 3 Bdrm TOTAL	

1. PURCHASE PRICE: 1 $ 90,000
2. REHABILITATION COSTS: Stud(__x__x__) 1BR(1 x600x20) 2BR(8 x800x20) 2 140,000
3. NET PROJECT COSTS (1+2): 3 230,000
4. SOFT COSTS (20% of 2): 4 46,000
5. GROSS PROJECT COSTS (3+4): Per Unit: 30,667 5 276,000

	Studio	One Bedroom	Two Bedroom	Sm. Two Bedroom	Lg. Two Bedroom
6. UNIT PRICES*:	--	$23,658	31,544	--	--
7. EQUITY (20%):	--	4,732	6,309	--	--
8. MORTGAGE (6-7; 13%/20 years):	--	18,926	25,235	--	--
9. MONTHLY DEBT SERVICE (8x.1406÷12):	--	222	296	--	--
10. ASSESSMENT** (23% of 6):	--	5,441	7,255	--	--
11. ANNUAL PROPERTY TAX*** (10x.2529):	--	1,376	1,835	--	--
12. MONTHLY PROPERTY TAX (11÷12):	--	115	153	--	--
13. TOTAL MONTHLY COST**** (9+12):	--	337	449	--	--

* Based on net square footages. Assuming no profit to developer.
** 23% of sales price, present City policy.
*** Currently $252.90 per $1000 of assessed value.
**** Excludes maintenance and common charges. Also excludes potential tax benefits to owner.

STREET:	BELVIDERE STREET	UNIT DISTRIBUTION: - Studio, - 2 Bdrm, 16 1 Bdrm, - 3 Bdrm; 16 TOTAL	SCHEME: C1
LEVEL OF REHABILITATION:	MODERATE		
FINANCING:	CONVENTIONAL		

1. PURCHASE PRICE: 1 $ 160,000
2. REHABILITATION COSTS: Stud(x x) 1BR(16 x 600 x 20) 2BR(x x) 2 192,000
3. NET PROJECT COSTS (1+2): 3 352,000
4. SOFT COSTS (20% of 2): 4 70,400
5. GROSS PROJECT COSTS (3+4): Per Unit: 26,400 5 422,400
6. EQUITY: 84,480 (20 %) 7. MORTGAGE AMOUNT (5-6): 337,920
8. INTEREST RATE: a 13 % b 14.06 Constant %
9. MORTGAGE TERM: 20 Years
10. ANNUAL DEBT SERVICE (7x8b): 10 47,512

		Low	High
11. ANNUAL OPERATING COSTS: Low(16 x 1900) High(16 x 2300)	11	30,400	36,800
12. RETURN ON EQUITY (10% of 6):	12	8,448	8,448
13. NET ANNUAL COSTS (10+11+12):	13	86,360	92,760
14. VACANCY RATE (5% of 13):	14	4,318	4,638
15. RESERVE (3% of 13):	15	2,591	2,783
16. GROSS ANNUAL COSTS (13+14+15):	16	93,269	100,181
17. NECESSARY ANNUAL RENT PER NET SQUARE FOOT:	17	9.72	10.44
18. NECESSARY MONTHLY RENT PER UNIT: (Based on net square footages) Studio	18	--	--
One-Bedroom		485	522
Two-Bedroom		--	--
Three-Bedroom		--	--

19. ANNUAL SHELTER BENEFIT: $6,655

STREET:	BELVIDERE STREET	UNIT DISTRIBUTION:		SCHEME:
LEVEL OF REHABILITATION:	MODERATE	- Studio	- 2 Bdrm	16	C2
FINANCING:	CONVENTIONAL WITH SECTION 312	16 1 Bdrm	- 3 Bdrm	TOTAL	

1. PURCHASE PRICE: — 1 $ 160,000
2. REHABILITATION COSTS: Stud(x x) 1BR(16 x 600 x 20) 2BR(x x) — 2 192,000
3. NET PROJECT COSTS (1+2): — 3 352,000
4. SOFT COSTS (20% of 2): — 4 70,400
5. GROSS PROJECT COSTS (3+4): Per Unit: 26,400 — 5 422,400
6. EQUITY: 32,000 (20 %) * 7. MORTGAGE AMOUNT (5-6): 128,000 @ 13% / 262,400 @ 3%
8. INTEREST RATE: ** a 13 / 3 % b 14.06 / 6.72 Constant %
9. MORTGAGE TERM: 20 Years
10. ANNUAL DEBT SERVICE (7x8b): Purchase 17,997; Rehabilition 17,633; 10 35,630

		Low	High
11. ANNUAL OPERATING COSTS: Low(16 x 1900) High(16 x 2300)	11	30,400	36,800
12. RETURN ON EQUITY (10% of 6):	12	3,200	3,200
13. NET ANNUAL COSTS (10+11+12):	13	69,230	75,630
14. VACANCY RATE (5% of 13):	14	3,461	3,781
15. RESERVE (3% of 13):	15	2,077	2,269
16. GROSS ANNUAL COSTS (13+14+15):	16	74,768	81,680
17. NECESSARY ANNUAL RENT PER NET SQUARE FOOT:	17	7.79	8.51
18. NECESSARY MONTHLY RENT PER UNIT: (Based on net square footages) Studio	18	--	--
One-Bedroom		389	425
Two-Bedroom		--	--
Three-Bedroom		--	--

19. ANNUAL SHELTER BENEFIT: $6,655

*20% of $160,000. **Purchase financed at 13%; rehabilitation plus soft costs at 3%.

STREET: HEMENWAY STREET LEVEL OF REHABILITATION: MODERATE FINANCING: CONVENTIONAL	UNIT DISTRIBUTION:		SCHEME:
	30 Studio · 5 2 Bdrm · 51 TOTAL		D1
	15 1 Bdrm · 1 3 Bdrm		

			Low	High
1.	PURCHASE PRICE:	1		$ 400,000
2.	REHABILITATION COSTS: Stud(30 x 400x 20) 1BR(15 x650x 20) 2BR(5 x900x 20) 3BR(1 x1100x 20)	2		547,000
3.	NET PROJECT COSTS (1+2):	3		947,000
4.	SOFT COSTS (20% of 2):	4		189,400
5.	GROSS PROJECT COSTS (3+4): Per Unit: 22,282	5		1,136,400
6.	EQUITY: 227,280 (20 %) 7. MORTGAGE AMOUNT (5-6): 909,120			
8.	INTEREST RATE: a 13 % b 14.06 Constant %			
9.	MORTGAGE TERM: 20 Years			
10.	ANNUAL DEBT SERVICE (7x8b):	10		159,778
			Low	High
11.	ANNUAL OPERATING COSTS: Low(51 x 1900) High(51 x 2300)	11	96,900	117,300
12.	RETURN ON EQUITY (10% of 6):	12	2,273	2,273
13.	NET ANNUAL COSTS (10+11+12):	13	258,951	279,351
14.	VACANCY RATE (5% of 13):	14	12,948	13,968
15.	RESERVE (3% of 13):	15	7,769	8,381
16.	GROSS ANNUAL COSTS (13+14+15):	16	279,668	301,700
17.	NECESSARY ANNUAL RENT PER NET SQUARE FOOT:	17	10.23	11.03
18.	NECESSARY MONTHLY RENT PER UNIT: (Based on net square footages) — Studio	18	341	368
	One-Bedroom		554	597
	Two-Bedroom		767	827
	Three-Bedroom		938	1,011
19.	ANNUAL SHELTER BENEFIT:		$18,960	

STREET: HEMENWAY STREET LEVEL OF REHABILITATION: MODERATE FINANCING: CONVENTIONAL WITH SECTION 213 GUARANTEE	UNIT DISTRIBUTION: 30 Studio 5 2 Bdrm 51 15 1 Bdrm 1 3 Bdrm TOTAL		SCHEME: D2

		Low	High
1. PURCHASE PRICE:	1		$ 400,000
2. REHABILITATION COSTS: Stud(30 x400x 20) 1BR(15 x650x 20) 2BR(5 x900 x 20) 3BR(1 x1100x 20)	2		547,000
3. NET PROJECT COSTS (1+2):	3		947,000
4. SOFT COSTS (20% of 2):	4		189,400
5. GROSS PROJECT COSTS (3+4): Per Unit: 22,282	5		1,136,400
6. EQUITY: 0 (- %) 7. MORTGAGE AMOUNT (5-6): 1,136,400			
8. INTEREST RATE: a 12 % b 12.11 Constant %			
9. MORTGAGE TERM: 40 Years			
10. ANNUAL DEBT SERVICE (7x8b):	10		137,618
11. ANNUAL OPERATING COSTS:* Low(51 x1700) High(51 x 2100)	11	86,700	107,100
12. RETURN ON EQUITY (10% of 6):	12	--	--
13. NET ANNUAL COSTS (10+11+12):	13	224,318	244,718
14. VACANCY RATE (5% of 13):	14	6,730	7,342
15. RESERVE (3% of 13):	15	6,730	7,342
16. GROSS ANNUAL COSTS (13+14+15):	16	237,778	259,402
17. NECESSARY ANNUAL RENT PER NET SQUARE FOOT:	17	8.69	9.48
18. NECESSARY MONTHLY RENT PER UNIT: (Based on net square footages) Studio	18	290	316
One-Bedroom		471	514
Two-Bedroom		652	711
Three-Bedroom		797	869
19. ANNUAL SHELTER BENEFIT:			0**

*Operating costs assumed to be somewhat lower as building organized as a cooperative.
**Individual tenants, however, are able to deduct interest and taxes.

STREET:	HUNTINGTON AVENUE	UNIT DISTRIBUTION:	SCHEME:
LEVEL OF REHABILITATION:	MODERATE	16 Studio 20 2 Bdrm 56	E1
FINANCING:	CONVENTIONAL	20 1 Bdrm - 3 Bdrm TOTAL	

1. PURCHASE PRICE: 1 $ 280,000
2. REHABILITATION COSTS: Stud(16 x 300 x 20) 1BR(20 x 600 x 20) 2BR(20 x 800 x 20) 2 656,000
3. NET PROJECT COSTS (1+2): 3 936,000
4. SOFT COSTS (20% of 2): 4 187,200
5. GROSS PROJECT COSTS (3+4): Per Unit: 20,057 5 1,123,200
6. EQUITY: 224,640 (20 %) 7. MORTGAGE AMOUNT (5-6): 898,560
8. INTEREST RATE: a 13 % b 14.06 Constant %
9. MORTGAGE TERM: 20 Years
10. ANNUAL DEBT SERVICE (7x8b): 10 126,338

		Low	High
11. ANNUAL OPERATING COSTS: Low(56 x 1900) High(56 x 2300)	11	106,400	128,800
12. RETURN ON EQUITY (10% of 6):	12	22,464	22,464
13. NET ANNUAL COSTS (10+11+12):	13	255,202	227,602
14. VACANCY RATE (5% of 13):	14	12,760	13,880
15. RESERVE (3% of 13):	15	7,656	8,328
16. GROSS ANNUAL COSTS (13+14+15):	16	275,618	299,810
17. NECESSARY ANNUAL RENT PER NET SQUARE FOOT:	17	8.40	9.14
18. NECESSARY MONTHLY RENT PER UNIT: (Based on net square footages) Studio	18	210	229
One-Bedroom		420	457
Two-Bedroom		560	609
Three-Bedroom		--	--

19. ANNUAL SHELTER BENEFIT: $22,738

STREET: HUNTINGTON AVENUE LEVEL OF REHABILITATION: TOTAL FINANCING: CONVENTIONAL	UNIT DISTRIBUTION: TOTAL: 46 4 Studio 20 2 Bdrm (small) 14 1 Bdrm 8 2 Bdrm (large)	SCHEME: E2

1. PURCHASE PRICE:		1	$ 280,000
2. REHABILITATION COSTS: Stud(4 x 300 x 35) 1BR(14 x 600 x 35) 2BR(sm)(20 x 800 x 35) (lg) 2BR(8 x 900 x 35)		2	1,148,000
3. NET PROJECT COSTS (1+2):		3	1,428,000
4. SOFT COSTS (20% of 2):		4	285,600
5. GROSS PROJECT COSTS (3+4): Per Unit: 37,252		5	1,713,600
6. EQUITY: 342,720 (20 %) 7. MORTGAGE AMOUNT (5-6): 1,370,880			
8. INTEREST RATE: a 13 % b 14.06 Constant %			
9. MORTGAGE TERM: 20 Years			
10. ANNUAL DEBT SERVICE (7x8b):		10	192,746

		Low	High
11. ANNUAL OPERATING COSTS: Low(46 x 1900) High(46 x 2300)	11	87,400	105,800
12. RETURN ON EQUITY (10% of 6):	12	34,272	34,272
13. NET ANNUAL COSTS (10+11+12):	13	314,418	332,818
14. VACANCY RATE (5% of 13):	14	15,721	16,641
15. RESERVE (3% of 13):	15	9,433	9,985
16. GROSS ANNUAL COSTS (13+14+15):	16	339,572	359,444
17. NECESSARY ANNUAL RENT PER NET SQUARE FOOT:	17	10.35	10.96
18. NECESSARY MONTHLY RENT PER UNIT: (Based on net square footages) Studio	18	259	274
One-Bedroom		518	548
Two-Bedroom (sm)		690	731
Two-Bedroom (lg)		776	822

19. ANNUAL SHELTER BENEFIT: $39,792

STREET: HUNTINGTON AVENUE LEVEL OF REHABILITATION: TOTAL FINANCING: GNMA TANDEM	UNIT DISTRIBUTION: TOTAL: 46 4 Studio 20 2 Bdrm (small) 14 1 Bdrm 8 2 Bdrm (large)	SCHEME: E3

1. PURCHASE PRICE:		1	$ 280,000
2. REHABILITATION COSTS: Stud(4 x300x 35) 1BR(14 x600x35) 2BR(sm)(20x800x 35) (lg) 2BR(8x900x 35)		2	1,148,000
3. NET PROJECT COSTS (1+2):		3	1,428,000
4. SOFT COSTS (20% of 2):		4	285,600
5. GROSS PROJECT COSTS (3+4): Per Unit: 37,252		5	1,713,600
6. EQUITY: 342,720 (20 %) 7. MORTGAGE AMOUNT (5-6): 1,370,880			
8. INTEREST RATE: a 8 % b 8.35 Constant %			
9. MORTGAGE TERM: 40 Years			
10. ANNUAL DEBT SERVICE (7x8b):		10	114,468

			Low	High
11. ANNUAL OPERATING COSTS: Low(46 x1900) High(46 x 2300)		11	87,400	105,800
12. RETURN ON EQUITY (10% of 6):		12	34,272	34,272
13. NET ANNUAL COSTS (10+11+12):		13	236,140	254,540
14. VACANCY RATE (5% of 13):		14	11,807	12,727
15. RESERVE (3% of 13):		15	7,084	7,636
16. GROSS ANNUAL COSTS (13+14+15):		16	255,031	274,903
17. NECESSARY ANNUAL RENT PER NET SQUARE FOOT:		17	7.78	8.38
18. NECESSARY MONTHLY RENT PER UNIT:	Studio	18	194	209
(Based on net square footages)	One-Bedroom		389	419
	Two-Bedroom (sm)		519	559
	Two-Bedroom (lg)		583	628

19. ANNUAL SHELTER BENEFIT: $39,792

STREET: HUNTINGTON AVENUE LEVEL OF REHABILITATION: TOTAL FINANCING: DEVELOPED AS CONDOMINIUMS	UNIT DISTRIBUTION: TOTAL: 46 4 Studio 20 2 Bdrm (small) 14 1 Bdrm 8 2 Bdrm (large)	SCHEME: E4

1. PURCHASE PRICE: 1 $ 280,000
2. REHABILITATION COSTS: Stud(4 X 300 X 35) 1BR(14 X 600 X 35) 2BR(20 X 800 X 35) (sm) (lg) 2BR(8 X 900 X 35) 2 1,148,000
3. NET PROJECT COSTS (1+2): 3 1,428,000
4. SOFT COSTS (20% of 2): 4 285,600
5. GROSS PROJECT COSTS (3+4): Per Unit: 37,252 5 1,713,600

	Studio	One Bedroom	Two Bedroom	Sm. Two Bedroom	Lg. Two Bedroom
6. UNIT PRICES*:	$15,672	31,344	--	41,792	47,016
7. EQUITY (20%):	3,134	6,269	--	8,358	9,403
8. MORTGAGE (6-7; 13%/20 years):	12,538	25,075	--	33,434	37,613
9. MONTHLY DEBT SERVICE (8x.1406÷12):	147	294	--	392	441
10. ASSESSMENT** (23% of 6(:	3,605	7,209	--	9,612	10,814
11. ANNUAL PROPERTY TAX*** (10x.2529):	912	1,823	--	2,431	2,735
12. MONTHLY PROPERTY TAX (11÷12):	76	152	--	203	228
13. TOTAL MONTHLY COST**** (9+12):	223	446	--	595	669

* Based on net square footages. Assuming no profit to developer.
** 23% of sales price, present City policy.
*** Currently $252.90 per $1000 of assessed value.
**** Excludes maintenance and common charges. Also excludes potential tax benefits to owner.

SCHEME SUMMARY SHEET - Rental

SCHEME:	A1	A2	A3	B1	C1	C2	D1	D2	E1	E2	E3
1. NUMBER OF UNITS:	4	4	4	9	16	16	51	51	56	46	46
2. LEVEL OF REHABILITATION:	Total	Total	Total	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate	Total	Total
3. FINANCING:	Convent.	Convent./ Homestead	Homestead/ Sec. 312	Convent.	Convent.	Convent./ Sec. 312	Convent.	Convent./ Sec. 213	Convent.	Convent.	GNMA/ Tandem
4. PURCHASE PRICE:	$12,500	0	0	$90,000	$160,000	$160,000	$400,000	$400,000	$280,000	$280,000	$280,000
5. REHABILITATION COSTS:	$105,000	$105,000	$105,000	$140,000	$192,000	$192,000	$547,000	$547,000	$656,000	$1,148,000	$1,148,000
6. GROSS PROJECT COSTS:	$141,000	$126,000	$126,000	$276,000	$422,400	$422,400	$1,136,400	$1,136,400	$1,123,200	$1,713,600	$1,713,600
7. PER UNIT PROJECT COSTS:	$35,250	$31,500	$31,500	$30,667	$26,400	$26,400	$22,282	$22,282	$20,057	$37,252	$37,252
8. EQUITY:	$28,200	$25,200	$25,200	$55,200	$84,480	$32,000	$227,280	0	$224,640	$342,720	$342,720
9. MORTGAGE AMOUNT:	$112,800	$100,800	$100,800	$220,800	$337,920	*	$909,120	$1,136,400	$898,560	$1,370,880	$1,370,880
10. INTEREST RATE:	13%	13%	3%	13%	13%	3% & 13%	13%	12%	13%	13%	8%
11. ANNUAL DEBT SERVICE:	$15,860	$14,172	$6,774	$31,045	$47,512	$35,630	$159,778	$137,618	$126,338	$192,746	$114,468
12. GROSS ANNUAL COSTS-Low:	$25,358	$23,212	$15,222	$57,958	$93,269	$74,768	$279,668	$237,778	$275,618	$339,572	$255,031
13. GROSS ANNUAL COSTS-High:	$26,654	$24,508	$16,518	$61,846	$100,181	$81,680	$301,700	$259,402	$299,810	$359,444	$274,903
14. NECESSARY MONTHLY RENT**:											
Studio	–	–	–	–	–	–	$341-368	$290-316	$210-229	$259-274	$194-209
One-Bedroom	–	–	–	$414-441	$485-522	$389-425	$554-597	$471-514	$420-457	$518-548	$389-419
Two-Bedroom	$528-555	$484-511	$317-344	$552-589	–	–	$767-827	$652-711	$560-609	–	–
Small Two-Bedroom	–	–	–	–	–	–	–	–	–	$690-731	$519-559
Large Two-Bedroom	–	–	–	–	–	–	–	–	–	$776-822	$583-628
Three Bedroom	–	–	–	–	–	–	$938-1011	$797-869	–	–	–
15. ANNUAL SHELTER BENEFIT:	$3,446	$3,446	$3,466	$4,853	$6,655	$6,655	$18,960	0	$22,738	$39,792	$39,792

* $128,000 financed at 13% and $262,400 at 3%.

** Ranging from low to high depending upon operating costs.

SCHEME SUMMARY SHEET - Condominiums

	SCHEME:	A4	B2	E4
1.	NUMBER OF UNITS:	4	9	46
2.	LEVEL OF REHABILITATION:	Total	Moderate	Total
3.	GROSS PROJECT COSTS:	$141,000	$276,000	$1,713,600
4.	PER UNIT PROJECT COSTS:	$35,250	$30,667	$37,252
5.	UNIT PRICES:			
	Studio	-	-	$15,672
	One-Bedroom	-	$23,658	$31,344
	Two-Bedroom	$35,250	$31,544	-
	Small Two-Bedroom	-	-	$41,792
	Large Two-Bedroom	-	-	$47,016
6.	MONTHLY DEBT SERVICE:			
	Studio	-	-	$147
	One-Bedroom	-	$222	$294
	Two-Bedroom	$330	$296	-
	Small Two-Bedroom	-	-	$392
	Large Two-Bedroom	-	-	$441
7.	MONTHLY PROPERTY TAX:			
	Studio	-	-	$76
	One-Bedroom	-	$115	$152
	Two-Bedroom	$171	$153	-
	Small Two-Bedroom	-	-	$203
	Large Two-Bedroom	-	-	$228
8.	TOTAL MONTHLY COST:			
	Studio	-	-	$223
	One-Bedroom	-	$337	$446
	Two-Bedroom	$501	$449	-
	Small Two-Bedroom	-	-	$595
	Large Two-Bedroom	-	-	$669

Notes, Definitions and Sources

Level of Rehabilitation: The extent of rehabilitation has been classified as either Moderate or Total. Moderate includes all new plumbing, mechanical and electrical systems; new bathrooms and kitchens; reglazing of windows; insulating where possible; some partial gutting where necessary although retention of fundamental floor plan (unit sizes, ceilings, stairways); new finishes. Total includes the complete gutting of the building and the replacement or repositioning of walls, roof, floors and partitions; insulation of walls and roof; all new plumbing, mechanical and electrical systems; new kitchens and bathrooms; new windows, new finishes.

Purchase Price (1): In some instances the purchase price represents a real asking price for the specific property or was the actual recent selling price. In other cases, the price is an estimate based on sales of comparable properties.

Rehabilitation Costs (2): For moderate rehabilitation a figure of $20 per square foot has been used; for total rehabilitation, $35. These assume non-union labor and derive from actual rehabilitation projects on similar buildings in Boston. In estimating the total cost of rehabilitation square footage costs are normally applied to the total net or gross area of the building. In these schemes only the square footage of the units themselves is used as building areas were unavailable. As a net-to-gross ratio is often of the order of 70%, the actual cost of rehabilitation is likely to be greater than these figures suggest. The formula for obtaining the rehabilitation costs is the number of each unit type multiplied by the average area of that type multiplied by the square footage cost.

Unit Sizes: Sizes in East Fens buildings vary with larger rooms more common in units in small buildings than in units in large buildings. For this analysis units range as follows:

Studio. 300 to 400 net square feet. One room with kitchen or kitchen alcove and separate bath.

One-Bedroom. 600 to 750 net square feet. Living/Dining room or living room with dining alcove, bedroom, kitchen and bath.

Two-Bedroom. 800 to 900 net square feet. Same as one-bedroom with the addition of a second bedroom.

Three-Bedroom. 1,100 net square feet. Same as one-bedroom with the addition of a second and third bedroom.

(Schemes E2-4 have both small and large two-bedroom units, the former having 800 net square feet of space; the latter, 900.

Soft Costs (4): Twenty percent of the purchase price and rehabilitation costs is employed as a reasonably standard rule of thumb to cover architectural, engineering and legal fees, permits, construction financing, marketing and brokerage fees and financing fees and points.

Annual Operating Costs (11): These include heat*, electricity in common areas, custodial service, legal and management, insurance, taxes, water and sewer, repairs and supplies, etc. The per unit costs were arrived at by interviews with East Fens managers and owners and largely confirmed by a survey conducted by E. Denis Walsh Associates for the Boston Housing Authority. The low and high range indicates a best and worst situation reflecting varying circumstances such as whether the owner is able to secure a 121A tax agreement. Lower figures are used for Schemes A1-A3 because in these instances tenants pay directly for heat. Scheme D2 shows slightly lower costs as well which is consistent with the normal pattern of cooperatives being less costly to operate because of tenant concern and involvement.

Return on Equity (12): By buying and rehabilitating a building the owner is investing a sum of money for which he expects a return. If no return results, a secure certificate of deposit at a bank would be a more sensible investment. Consequently, 10% of the equity put forward is included as a cost.

Vacancy Rate (14): Although the East Fens vacancy rate is less than 5% this rate has been used here to balance the high turnover that characterizes the area and to offset bad debts arising from nonpayment of rent.

Reserve (15): A 3% reserve factor is included for major repairs and replacement of equipment and building components.

Except in the case of Schemes A1-3.

Necessary Monthly Rent per Unit (18): This derives from multiplying item 17 by the square footages of each unit type and then converting to months by dividing by twelve. This approach is only mildly related to how rents for different sizes might actually be set. For instance rents for studios would be closer to those for one-bedroom units than is suggested here. On the other hand, the difference between one- and two-bedroom units might be greater. Also, one unit will command a higher rent than another because of location within the building, view, condition, etc.

Annual Shelter Benefit (19): This is figured at the residential rate of 125% of straight line depreciation based on 30 years. It is assumed that the property will be held for 10 years. The benefit may be deducted from income--though not from tax--annually, and its significance depends on the owner's total income and tax bracket.

Note: Only unit rental income is included in these schemes. Often a property generates other income as well, e.g. parking fees and pay laundry income.

The major assumption throughout these schemes, particularly in the three condominium conversions, is that the owner or developer is not taking a profit (other than the return on equity). This is unrealistic, of course, and certainly the rents and condominium sale prices shown here have to be thought of as minimums.

APPENDICES

Housing Team Members and Meeting Attendees

Housing Goals - EFforT

Housing Goals - FenPAC

Housing Goals - Boston-Fenway Program, Inc.

Housing Data Base

The Housing Team included the following persons:

Mr David Brown (Fenway Management Company) Landlord
Mr Richard J. Gilbert (Joy Realty Associates) Landlord
Mr Leo Grace (Union Federal Savings & Loan) Banker
Ms Bonnie Heudorfer (Boston Redevelopment Authority)
Ms Marty Jones (Corcoran Mullins Jennison, Inc.) Developer
Mr John Livingston (New England Mutual Life Insurance Company) Commercial mortgage lender
Mr John J. McSweeney (Suffolk Franklin Savings Bank) Banker
Mr Mario Nicosia (Nicosia Development Company) Developer
Mr Sheppard Rainie (Workingmens Cooperative Bank) Banker
Ms Joanne Schenck (Suffolk Franklin Savings Bank) Banker
Mr Wayne Sherwood (Citizens Housing and Planning Association) Planner

The following persons attended specific meetings to talk on one or more topics or attended as interested observers:

Mr John Achatz (Brown Rudnick Freed & Gesmer)
Mr Scott Ashley (Symphony Area Renaissance, Inc.)
Mr George H. Berry (Energy consultant)
Mr Richard Bland (Greater Boston Real Estate Board)
Ms Sandra Brant
Mr Edward P. Carney (Wentworth Institute)
Mr Robert Case (Fenway Energy Organization)
Mr Marc Cumsky (Fine & Ambrogne)
Mr Belden H. Daniels (Center for Community Economic Development)
Mr Rolf Goetze (Boston Redevelopment Authority)
Mr Jon Gollinger (Nicosia Development Corporation)
Mr Peter Kwass (Fenway Community Development Corporation)
Mr William Marotta (Boston Redevelopment Authority)
Mr Jack Mills (All City Organization)
Ms Shirley Parish (Massachusetts Home Mortgage Finance Agency)
Mr Arthur Shea (Office of Property Equalization, City of Boston)

Ms Sandra Smith (Fenway Management Company)
Mr Loring Thompson (Northeastern University)
Ms Eleanor White (Department of Housing & Utban Development)
Mr Roger Willcox (National Association of Housing Cooperatives)

Housing Goals - EFforT

In the early phases of EFforT, particularly during the first two Public Review Sessions and the six Housing Team Meetings, a number of goals and issues were identified and discussed. Many of these appear in The East Fens Profile and are repeated here:

Community Goals (Housing-related)

- Preserve and improve the existing residential scale and character for a diversified, stable population.
- Improve the quality, condition, and safety of the full range of existing housing throughout the East Fens while striving to keep rents within economic reach of present residents.
- Give priority to housing programs and policies for rehabilitating or replacing the boarded and empty buildings, particularly the larger ones with structural deficiencies.
- Encourage a modest increase in new housing units on appropriate vacant lots. Such additional housing should serve primarily families.
- Reduce student influence in the East Fens housing market by developing and implementing institutional residence policies which respect and encourage community stability.

- Encourage a wider choice of types of housing ownership and tenancy, including rental units, cooperatives, condominiums, and congregate housing for the elderly.
- Minimize the effects of involuntary displacement of present residents by any rehabilitation or revitalization activities through appropriate use of available housing subsidies or other techniques.
- Find ways to limit the adverse effects of property speculation.
- Encourage the fullest possible utilization of energy conservation and building technology in all new construction and rehabilitation throughout the East Fens.
- Utilize the available community development corporations to maximize revitalization benefits for present East Fens residents.

Community Issues and Questions

- Community Change. Involuntary displacement of additional residents is feared and opposed by many; but change may be welcomed if it means securing the more stable population all neighborhood groups agree is desirable. Would condominiums (an increase in owners rather than tenants) be beneficial? Could low- and moderate-income residents be helped to become owners? Is the potential displacement of students and of non-students considered equally serious? How might displacement be controlled in the East Fens without risking disinvestment by property owners?
- Taxes. The property tax is the main income source for the City of Boston. The present level of taxes, 30-35% of gross income for rental property, is considered a major barrier to investment in housing. How do current tax assessments affect the East Fens? How will these assessments change in 1983 with the full implementation of equalized 100% valuation and classification? How much will the tax burden be reduced after equalization? Since uncertainties in equalization are important disincentives to long-term investment, which government policies can alleviate

this situation? Should tax policy be applied without respect to social policy or should a differential taxing system be used to stimulate housing for low- and moderate-income residents?

- Rent Control. The needs of tenants and property owners alike have been discussed at length in EFforT meetings, with no resolution of the issues surrounding rent control. Does rent control offer promise for achieving the community goals of adequate housing for low- and moderate-income families? Are there other community goals to which rent control or its absence relate? What type of rent control, if any, would be beneficial? How can rent control better respond to changes in costs such as property taxes, service charges, and heating/utility costs?

- Subsidized Housing. About 14% of the apartments in the East Fens are now being subsidized under some government program. What percentage of the total number should be an effective limit for subsidy? How can available subsidy programs be used in the East Fens to provide the overall socio-economic diversity that is one of the community's goals?

Housing Goals - FenPAC

The Fenway Project Area Committee (FenPAC) has identified and accepted the following housing-related goals:

- To preserve the residential character of the Fenway Project Area [*which encompasses an area larger than the East Fens alone*].
    - Preserve the design scale and character of architecture.
    - Preserve existing buildings except in cases where (1) resident safety or health is endangered, or (2) where the demolition and proposed replacement would enhance the architectural character of the neighborhood.
    - Retain the quantity of residential space.
- To increase residential space through (1) rehabilitation of unused buildings and (2) new construction.
- To attract a stable population.
    - Increase home ownership and owner-occupancy for all income groups through:
        - Increasing and accelerating availability of 312/115 assistance and other ownership rehabilitation funds.

- Encouraging the development and marketing of condominiums and cooperatives, particularly with respect to larger apartment buildings.
- Requiring owners of all lodging houses to live within the Fenway Project Area.
- Encouraging the permanent staff of institutions located in and around the Project Area to buy homes in the Fenway area.

- Encourage long-term tenancy among renters through:
  - Requiring educational institutions to exercise greater control over students living in the Project Area.
    - Reducing concentrations of students living in the Project Area.
    - Bringing rents of multi-bedroom units within the means of moderate-income families.
    - Enforcing high maintenance standards in housing occupied by students.
  - Encouraging tenancy in the Fenway by permanent staff of institutions located in the Project Area.

- To <u>provide</u> incentives for long-term owner-investors of well managed buildings.
- To <u>urge</u> fair assessment of real property.
- To <u>seek</u> cooperative loan policies from local banks.
  - Obtain statements from local banks of their overall loan policies with respect to the Fenway.
  - Provide fair allocation of loans between real estate investors and owner-occupants.
- To <u>couple</u> effective code enforcement with meaningful programs to correct violations without unreasonably overburdening owners.
  - Require annual inspection of all properties.

- Negotiate agreements between owners and inspection departments for the correction of violations over a reasonable period of time.

- To insure that the future housing stock reflects current income mix of non-elderly and non-student households in the Project Area.

    - Allow no reduction in the present proportion of housing units occupied by low- and moderate-income persons. Housing now so occupied shall be rehabilitated or brought up to code standards.

    - Require that FenPAC and/or the Boston Redevelopment Authority annually determine that the proportion of new low- and moderate-income to market rate housing units be substantially the same as the overall income mix goal and it shall take any actions necessary to maintain this balance.

- To pursue a positive publicity campaign (publicizing 'Fenway's best' through television, newspapers and radio).

    - Promote the Fenway through flyers, brochures, posters, carnivals, street fairs, housing tours and 'welcome to our neighborhood' campaigns.

    - To improve the public environment.

Housing Goals - Boston-Fenway Program

The Boston-Fenway Program, Inc., has not formally embraced a set of specific housing goals or policies nor has it instituted its own housing program or been involved with the ownership or active development of housing. It has been the Program's longstanding view, however, that several approaches or policies would prove highly significant in allowing the Fenway to maintain its strengths and attractions while at the same time annulling many of those negative physical and social aspects that seem persistently to exist. Strictly within the area of housing matters these have been identified as follows:

- Encourage a wide range of low, moderate, middle and market cost housing opportunities within the community.
- Encourage a wide range of choices relative to housing type: large units, small units, large buildings, rowhouses.
- Encourage owner-occupancy and other forms of equity participation in housing.
- Encourage the occupancy of local housing by locally employed persons including staff and faculty of area institutions.

The Boston-Fenway Program, Inc., has been particularly drawn to the concept of equity participation in general and cooperative

forms in specific. Moreover, the opportunity of directing in part the marketing of such housing at the large institutional employee pool has been recognized.

Housing Data Base

Much of the information in the following tables was gathered for and highlighted in the EAST FENS PROFILE.

Table A: LAND USE - Summary

Land Use Category	Number of Buildings	Number of Lots	Lot Area in Square Feet	Percent
Residential	324	299	1,023,051	32%
Residential/Commercial	36	36	282,830	9%
Dormitory	22	22	412,021	13%
Commercial	26	28	211,786	7%
Parking	1	22	142,444	4%
Institutional	29	23	894,084	28%
Vacant	0	16	48,840	2%
Other	6	10	172,951	5%
TOTAL	444	456	3,188,007	

Source of Data: *Field inspection. Assessed Values of Real Estate (Greater Boston Real Estate Board).*

Date of Data: *Summer 1979.*

Table B: LAND OWNERSHIP

Ownership	Number of Buildings	Number of Lots	Lot Area in Square Feet	Percent
Privately owned	347-2/3*	336	1,525,759	48%
Publicly owned	7	19	133,873	4%
Institutionally owned	89-1/3*	101	1,528,375	48%
TOTAL	444	456	3,188,007	

*One buildings on 3 lots: 1 lot owned institutionally and 2 privately.

Source of Data: *Assessed Values of Real Estate (Greater Boston Real Estate Board).*

Date of Data: *Assessments as of 1 January 1978 for Fiscal Year 1979. Updated in some instances.*

Table C: PROPERTY TAXES

Tax Category	Number of Buildings	Number of Lots	Assessed Value Land	Assessed Value Structures	Assessed Value Total
Taxable:					
Private	347-2/3*	336	$4,855,200	$13,972,900	$18,828,100
Public	0	0	0	0	0
Institutional	48-1/3*	58	$2,333,600	$4,274,400	$6,608,000
Sub-total	396	394	$7,188,300	$18,247,300	$25,436,100
Partially Exempt:					
Private	0	0	0	0	0
Public	0	0	0	0	0
Institutioal	2	2	$38,500	$113,100	$151,600
Sub-total	2	2	$38,500	$113,100	$151,600
Exempt:					
Private	0	0	0	0	0
Public	7	19	$474,300	$557,800	$1,032,100
Institutional	39	41	$5,151,200	$45,961,200	$51,112,400
Sub-total	46	60	$5,625,500	$46,519,000	$52,144,500
TOTAL					
Private	347-2/3*	336	$4,855,200	$13,972,900	$18,828,100
Public	7	19	$474,300	$557,800	$1,032,100
Institutional	89-1/3*	101	$7,523,300	$50,348,700	$57,872,000
GRAND TOTAL	444	456	$12,852,800	$64,879,400	$77,732,200

*One building on 3 lots: 1 lot owned institutionally and 2 privately.

Source of Data: *Assessed Values of Real Estate (Greater Boston Real Estate Board); FenPAC; Assessing Department (City of Boston).*

Date of Data: *Assessments as of 1 January 1978 for Fiscal Year 1979.*

Table D: HOUSING - By Type and Size *(Occupied & Unoccupied)*

Type & Size	Number of Buildings	Number of Units	Units by Percent
Small (1-4 units)	106	333	4%
Medium (5-19 units	86	734	8%
Large (20 or more units)	87	2509	27%
Lodging Houses (all sizes)	45	687*	7%
Dormitories (all sizes)	21	3047*	33%
Small with Commercial	13	38	0.4%
Medium with Commercial	6	45	0.5%
Large with Commercial	15	1025	11%
Lodging Houses with Commercial	2	193*	2%
Dormitories with Commercial	1	600*	7%
TOTAL	382	9211	

*Beds or rooms not necessarily housekeeping units.

Commercial is defined as ground-floor direct entrance commercial or office space.

Source of Data: Field inspection; FenPAC files; institutional documents, etc.

Date of Data: Base data: 1976. Extensively updated.

Table E: LODGING HOUSES - By Type and Size *(Occupied & Unoccupied)*

Type & Size	Number of Buildings	Percent	Number of Units	Percent
Small (1-4 units)	0	-	0	-
Medium (5-19 units)	33	70%	267	30%
Large (20 or more units)	12	26%	420	48%
Small with Commercial	0	-	0	-
Medium with Commercial	0	-	0	-
Large with Commercial	2	4%	193	22%
TOTAL	47		880	

NOTE: Size classification is by capacity in beds which may not correspond to the number of actual units.

Source of Data: *FenPAC.*

Date of Data: *Base data: 1976. Extensively updated.*

Table F: STUDENT HOUSING

	Number of Buildings	Number of Units	Units by Percent
Dormitories & apartment houses owned by institutions and used for student housing.	20	3579	39%
Fraternities (privately owned).	2	68	0.7%
Other housing owned by institutions:			
With 50% or more student tenants.	1	10	0.1%
With less than 50% student tenants.	28	398	4%
Privately or publicly owned housing:			
With 50% or more student tenants.	105	1545	17%
With less than 50% student tenants.	168	2920	32%
Boarded or empty housing including structures now being rehabilitated.	30	525	6%
Data unavailable.	28	166	2%
TOTAL	382	9211	

Source of Data: *Annual List of Residents; Institutions.*

Date of Data: *1978*

Table G: HOUSING TENANCY

Type of Tenancy	Number of Buildings	Percent	Number of Units
Owner-occupied housing	48	13%	259*
Non owner-occupied housing	283	74%	4782
Boarded or Empty	24	6%	422
Dormitories & Fraternities	22	6%	3647**
Being rehabilitated***	5	1%	101
TOTAL	382		9211

* Of which 63 units are occupied by owners (one building being a condominium).

** Beds or rooms not necessarily housekeeping units.

*** This category includes only those buildings previously boarded or empty.

Source of Data: *FenPAC.*

Date of Data: *Summer 1979.*

Table H: EXTERIOR CONDITION OF HOUSING

(Occupied & Unoccupied)

Rating	Number of Buildings	Percent	Number of Units
Excellent	71	20%	1151
Good	91	25%	1547
Fair	155	43%	2059
Poor	42	12%	779
TOTAL	359		5536

NOTE: Excludes all dormitories and Fenway Studios.

Source of Data: *Field inspection by staff of FenPAC and the City of Boston. Ratings were assigned according to scores on a wide range of factors.*

Date of Data: *Summer 1979.*

Table I: BOARDED OR EMPTY RESIDENTIAL BUILDINGS

Type & Size	Number of Buildings Boarded	Number of Buildings Empty	Number of Units Boarded	Number of Units Empty
Small (1-4 units)	6	2	22	8
Medium (5-19 units)	0	1	0	6
Large (20 or more units)	5	0	117	0
Lodging Houses (all sizes)	9	1	263*	6*
Dormitories (all sizes)	0	0	0	0
TOTAL	20	4	402	20

NOTE: Excludes those boarded or empty residential buildings now being rehabilitated.

* Beds or rooms not necessarily housekeeping units.

Source of Data: *Field inspection; FenPAC; Assessed Values of Real Estate (Greater Boston Real Estate Board).*

Date of Data: *Summer 1979.*

Table J: MONTHLY RENTS

(Sample: 59 Buildings)

Type & Status of Unit	Exterior Condition Rating (See Table H) Excellent	Good-Fair	Poor
Lodging House (Room):			
Decontrolled	-	$120-$165	$100
Studio Apartment:			
Controlled	$165-$225	$118-$165	$85-$120
Decontrolled	$250-$325	$150-$190	$110-$155
One Bedroom Apartment:			
Controlled	$215-$250	$152-$200	$96-$145
Decontrolled	$270-$370	$180-$265	$110-$130
Two Bedroom Apartment:			
Controlled	$250-$290	$165-$240	$105-$170
Decontrolled	$400-$600	$280-$340	$150-$170
Three Bedroom Apartment:			
Controlled	-	$240-$280*	$166-$259
Decontrolled	-	$350-$450	-

*Includes some four bedroom apartments

Source of Data: *Survey conducted by John Rumely and Douglas Koch using data supplied by the Rent Control Administration, landlords and rental agents.*

Date of Data: *Information obtained during the Summer of 1979: some rents may have been out-of-date at that time.*

Table K: DEMOGRAPHICS *(As related to market demand for housing)*

K1: AGE DISTRIBUTION BY PERCENT

Age	Total Population	Excluding all Dormitory and Fraternity Residents
17-22	42%	13%
23-29	28%	41%
30-39	9%	14%
40-49	4%	6%
50-64	6%	9%
65 & over	11%	18%
	Sample: 9211	*Sample: 5990*

Source of Data: Annual List of Residents, City of Boston.
Date of Data: January 1, 1978.

K2: MARITAL STATUS

	Total Population	Excluding all Students
Single	81%	78%
Married	16%	17%
Widowed/Divorced	3%	5%
	Sample: 206	*Sample: 147*

Source of Data: Public Safety Survey (Northeastern University Center for Applied Social Research)
Date of Data: 1978.

K3: HOUSEHOLD SIZE

	Total Population	Excluding all Students
1 person	46%	55%
2 persons	41%	32%
3 persons	7%	5%
4 persons	2%	3%
5 or more	4%	5%
	Sample: 209	*Sample: 145*

Source of Data: Public Safety Survey (Northeastern University Center for Applied Social Research).
Date of Data: 1978.

K4: MOBILITY

Period at Same Address	Total Population	Excluding all Students
Less than 6 months	13%	12%
6 months-1 year	22%	18%
1-2 years	24%	17%
2-5 years	22%	26%
More than 5 years	19%	28%
	Sample: 210	*Sample: 145*

Source of Data: Public Safety Survey (Northeastern University Center for Applied Social Research).
Date of Data: 1978.

K5: FAMILY INCOME

	Total Population	Excluding all Students
Less than $3000	14%	6%
$3000-$7499	38%	33%
$7500-$9999	20%	24%
$10,000-$14,999	19%	26%
$15,000-$24,999	8%	10%
$25,000 or more	1%	2%
	Sample: 160	*Sample: 110*

Source of Data: Public Safety Survey (Northeastern University Center for Applied Social Research).
Date of Data: 1978.

Table L
SUMMARY
1960 & 1970 Census

EAST FENS FOR TOMORROW
Jointly sponsored by
The Fenway Project Area Committee
The Boston Fenway Program, Inc

Category	1960 Census	% of Boston	(Number)	1970 Census	% of Boston	(Number)	Change 1960-1970 Number	Change 1960-1970 Percent
1. Population	9558	1.37	(697197)	10463	1.63	(641071)	+905	+9.5
2. Housing Units Occupied & Unoccupied	6070	2.54	(238816)	5000	2.15	(232413)	-1070	-17.6
3. Housing Units Occupied	5240	2.33	(224718)	4498	2.07	(217622)	-742	-14.2
4. Housing Units Owner-Occupied	144	0.24	(61243)	77	0.13	(59230)	-67	-46.5
5. Housing Units Renter-Occupied	5096	3.12	(163475)	4421	2.79	(158392)	-675	-13.2
6. Average Number of Rooms Owner-Occupied	3.1-7.9	-	6.2	3.0-5.6	-	6.2	Trend towards smaller units	
7. Average Number of Rooms Renter-Occupied	1.2-4.5	-	4.0	1.7-4.2	-	3.9	Trend towards concentration in mid-range	
8. Average Contract Rent Renter-Occupied	$40-$103	-	$63	$82-$160	-	$113	Doubling of rents in lower range, lesser % increase in higher	
9. Occupied Housing Units with 1.01 or more Persons per Room	189	1.05	(17956)	257	1.56	(16471)	+68	+36.0

Table M: Assisted or Subsidized Housing *Source: FenPAC*

Project/Developer	Address	Housing Units	Financing	121A	UDAG	Sec 8	Sec 236 rent supp.	Sec 23	Sec 312	Solar Grant
Boston Rehabilitation Associates	66 The Fenway	32-38	Private	yes	no	32-38	-	-	no	no
Burbank Apartments	16-22 Haviland 15-33 Edgerly 48-52 Burbank 49 Burbank	173	221d3	no	no	2	34	-	no	no
Burbank Gardens	31-41 Burbank	52	MHFA	no	no	-	-	28	no	no
Church Park	199-255 Mass	508	MHFA	no	no	178	-	-	no	no
Hamilton Realty (Parcel 13)	1078-80; 1088-96; 1100; 1120-30 Boylston	44	Write-down Private	yes	no	-	-	-	no	no
Hemenway Apartments	97 & 143-49 Hemenway	57	MHFA	yes	no	57	-	-	no	no
Morville House	100 Norway	147	HUD	yes	no	147	-	-	no	no
Norway Housing	32 Hemenway 99-103 Norway 87 St. Stephen	136	MHFA	no	no	122	-	-	no	no
St. Germain St	8-60, 17-69 St. Germain except numbers 27 & 49	202	Private	no	no	9	-	-	no	no
Symphony Area Renaissance Inc.	29, 30, 31 & 33 Symphony	20	Write-down	no	no	-	-	-	yes	yes
Westland Avenue Associates	64, 65, 66, 67, 68, 72, 74, 76 78 & 83 Westland (7 bldgs)	97	Write-down GNMA	yes	yes	30	-	-	no	yes
Owner-occupied:	30 Edgerly	4	Private	-	-	-	-	-	yes	no
	82 St. Stephen	3	Private	-	-	-	-	-	yes	no

Table N: INTERIOR INSPECTIONS (*Sample: 28 buildings*)

N1: BUILDING TYPE

1-4 units	46%
5-19 units	28%
20 units or more	26%

N2: OWNER TYPE

Owner-occupant	38%
Fenway area investor	7%
City investor	46%
Metropolitan investor	9%

N3: CONDITION ACCORDING TO EXTERIOR SURVEY

Excellent	1	3.5%
Good	7	25%
Fair	19	68%
Poor	1	3.5%

N4: CONDITION ACCORDING TO REHABILITATION NEED

Cosmetic[1]	2	7%
Minor[2]	16	57%
Total[3]	10	36%

N5: CROSS INDEXING BETWEEN REHABILITATION NEED & EXTERIOR CONDITION

a. Need cosmetic rehabilitation; in excellent condition	1	3.5%
b. Need cosmetic rehabilitation; in good condition	1	3.5%
c. Need minor rehabilitation; in good condition	6	21.5%
d. Need minor rehabilitation; in fair condition	10	36%
e. Need total rehabilitation; in fair condition	9	32%
f. Need total rehabilitation; in poor condition	1	3.5%

N6: REHABILITATION NEED OF ALL EAST FENS BUILDINGS; DETERMINED BY EXTRAPOLATING INTERIOR SAMPLE TO ALL BUILDINGS

a. Buildings needing cosmetic or no rehabilitation[4]	193	54%
b. Buildings needing minor rehabilitation[5]	75	21%
c. Buildings needing total rehabilitation[6]	91	25%

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[1] *Cosmetic rehabilitation is defined as a situation where no major structural, utility or interior changes are required, and where about $1000-2000 per unit is sufficient for repair and upgrading.*

[2,3] *Total and minor rehabilitation are defined in the Rehabilitation Schemes section.*

[4] *This total cannot be broken down since an insignificant sample of buildings needing cosmetic rehabilitation was identified.*

[5] *This figure was derived from multiplying the total number of fair condition buildings from Table H by the percentage of buildings needing minor rehabilitation in fiar condition. This subtotal was added to the product of the total number of good condition buildings fround in Table H by the percentage of buildings needing minor rehabilitation in good condition.*

[6] *This figure was derived from multiplying the percentage of units needing total rehabilitation in fair condition by the total number of fair condition buildings. This subtotal was then added to the number of poor condition buildings in the exterior survey shown in Table H.*

Source: Prepared by FenPAC
Date of Data: 1978 and 1979